FraserPapers

Fraser Papers Inc.

Annual Information Form
March 24, 2009

FraserPapers

ANNUAL INFORMATION FORM

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GLOSSARY

Biomass: bark used as fuel to operate cogeneration facilities or boilers

CAAF: contrat d'approvisionnement et d'aménagement forestier (timber supply and forest management agreements)

Chemical pulp: wood pulp produced from wood chips using chemical processes to break the bonds between the wood fibres and includes kraft pulp and sulphite pulp

Cogeneration: generation of power in an industrial power plant to produce both steam and electricity for in-plant use, as well as electricity for sale to outside utility companies

Crown licenses: licenses granted by provincial governments to companies that allow those companies to harvest trees on the licensed land

Dimension lumber: wood that is milled into standard sizes for construction uses

fbm: foot-board measure (board foot) — one square foot of lumber one inch thick

Fine paper: uncoated freesheet paper

Freehold timberland: land that is wholly owned by Fraser Papers

Groundwood paper: paper with mechanical pulp as its major component, which differs from newsprint in brightness, surface characteristics and end-uses

Kraft pulp: chemical pulp produced by an alkaline cooking process using sodium sulphate

Market pulp: pulp sold on the open market between non-affiliated companies

Mechanical pulp: pulp produced from roundwood or wood chips by mechanically breaking the bonds between wood fibres

Mfbm (MMfbm): thousand (million) foot-board measure

Paperboard: a thick paper used to produce rigid boxes and a variety of packaging applications

Release paper: paper designed to be easily removed from sticky surfaces, such as the backing paper for labels

Roundwood: wood fibre in log form

Silviculture: the science of forest management

Slurry form: wood pulp in wet form generally consisting of approximately 98.5% moisture

Sulphite pulp: chemical pulp produced by an acid cooking process using magnesium or calcium bisulphite

Thermal base paper: paper coated with a heat-sensitive material that changes colour when heat is applied in a thermal printer, often used in cash register receipts

Timber: roundwood

Tonne: metric ton 1,000 kilograms or approximately 2,205 pounds

Uncoated freesheet paper: paper with bleached chemical pulp as its major raw material, also known as fine paper

Wood Fibre: wood in any form

Wood pulp: chemical pulp and mechanical pulp

CORPORATE STRUCTURE

Fraser Papers Inc. is a corporation existing under the laws of Canada. The registered and principal office of Fraser Papers Inc. is Suite 200, Brookfield Place, 181 Bay Street, Toronto, Ontario, M5J 2T3.

In this Annual Information Form, "Fraser Papers", "we", "us" and "our" refers to Fraser Papers Inc. and all of its subsidiaries while "Company" means Fraser Papers Inc. as a separate corporation, unless the context implies otherwise. "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 is a diversified Canadian based corporation. At March 24, 2009 Brookfield owned, directly or indirectly, approximately 70.5% of the outstanding Common Shares of the Company.

Fraser Papers is an integrated specialty paper company that produces a broad range of specialty packaging and printing papers. Fraser Papers has operations in New Brunswick, Quebec, Maine and New Hampshire. The Company is listed on the Toronto Stock Exchange under the symbol: FPS. Additional information is available on the Fraser Papers website at www.fraserpapers.com.

Subsidiaries

The principal operating subsidiaries of the Company are:

Name	**Jurisdiction of Incorporation or Organization**	**Percentage of Voting Securities Owned**
FPS Canada Inc.	Canada	100%
Fraser Papers Holdings Inc.	Delaware	100%
Fraser Papers Limited	Maine	100%
Fraser Timber Limited	Maine	100%
Fraser N.H. LLC	Delaware	100%
Katahdin Services Company LLC	Maine	100%

All voting or non-voting securities issued by any of these companies are 100% owned by Fraser Papers.

FPS Canada Inc. manages the Company's pulp and lumbermill assets in Canada. These include: a pulp mill and biomass cogeneration power plant in Edmundston, New Brunswick; a market pulp mill in Thurso, Quebec; and lumbermills in Juniper and Plaster Rock, New Brunswick.

Fraser Papers Holdings Inc. holds Fraser Papers' investments in Fraser Papers Limited and Fraser Timber Limited.

Fraser Papers Limited owns and manages Fraser Papers' paper operations in Madawaska, Maine. Fraser Papers Limited is the sole member of Fraser N.H. LLC. In addition, Fraser Papers Limited is the sole member of Katahdin Services Company LLC which manages the operations of Katahdin Paper Company LLC ("Katahdin"), an indirect, wholly-owned subsidiary of Brookfield.

Fraser N.H. LLC owns and operates a paper mill in Gorham, New Hampshire. Fraser N.H. LLC shut down a hardwood kraft pulp mill in Berlin, New Hampshire in April 2006 as described in "Key Events in the Past Three Years".

Fraser Timber Limited owns and manages Fraser Papers' two lumbermill operations in Masardis and Ashland, Maine.

Fraser Papers' reporting currency is the United States dollar. **All references to "$" or "dollars" in this Annual Information Form are to U.S. dollars unless otherwise specified**.

DEVELOPMENT OF THE BUSINESS

Fraser Papers was established as a stand-alone company on June 30, 2004. Prior to that date, our operations constituted the Timber and Paper segments of Norbord Inc. (formerly Nexfor Inc.).

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 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 of specialty papers.

We believe that a focus on improving product margins is key to increasing shareholder value. Fraser Papers focuses on improving product mix and customer mix, volume and cost reductions. During 2008, we generated margin improvements of $30.2 million relative to 2007. In 2007, we generated margin improvements of $22.9 million relative to 2006.

Fraser Papers has completed a number of asset repositioning initiatives to ensure optimal allocation of capital. During 2005, we completed the sale of our pulp and paper mill in Wisconsin, sold approximately 240,000 acres of freehold timberlands in Maine and sold our paperboard business in New Brunswick. During 2006, Fraser Papers sold its 765,000 acres of freehold timberlands in New Brunswick and permanently shut down a pulp mill in Berlin, New Hampshire. During 2007, we permanently shut two paper machines at our Madawaska, Maine paper mill and sold our interest in Acadian Timber Income Fund (“Acadian”).

We will also pursue growth opportunities that are consistent with our objectives. Acquisitions will be done selectively and on a value basis.

Maintaining a strong balance sheet is important in a cyclical business. In January 2008, the Company completed the issuance of $59.7 million of common shares by way of a rights offering (the “Offering”) to its shareholders with the proceeds used to repay indebtedness. During 2008, the Company increased its borrowing capacity under its existing credit line and extended the term of the facility, secured a term loan from the province of New Brunswick, and, in September 2008, entered into a one year term credit facility with a Canadian chartered bank.

Key Events in the Past Three Years
In January 2008, the Company completed a $59.7 million issuance of common shares by way of the Offering. Proceeds of the Offering were used to repay outstanding indebtedness. Under the Offering, all shareholders were given the right to purchase common shares in proportion to their existing ownership interest in the Company at a price of CAD$2.90 per share. Brookfield agreed to exercise all rights not exercised by other shareholders. As a result of certain shareholders not exercising their rights, Brookfield increased its ownership interest in the Company to 70.5%.

During 2008, the Company increased its available credit under its revolving credit facility to a maximum of $115.0 million and extended the term of the facility through April, 2011. Borrowings under the facility are secured by a fixed first charge against accounts receivable and inventory and bear interest at market rates. In addition, up to $25.0 million of the Company's borrowings under the facility are guaranteed by Brookfield, which holds a fixed first charge over certain of the Company's property, plant and equipment while the guarantee is outstanding.

In June 2008, the Company secured a CAD$40.0 million term loan facility from the province of New Brunswick to support the upgrade of its facilities in the province. The fixed rate term-loan is for a period of up to six and a half years and is secured by a first charge on the Company's fixed assets in New Brunswick.

In September 2008, the Company entered into a $25.0 million one year term credit facility with a Canadian chartered bank, which bears interest at prevailing market rates. Borrowings under the facility are guaranteed by Brookfield, which holds a fixed first charge over certain of the Company's property, plant and equipment while the guarantee is outstanding.

In January 2006, the Company sold its freehold timberlands in New Brunswick to a newly formed income fund. Total proceeds consisted of $94.0 million in cash plus 3,613,780 securities which were convertible into units of Acadian. The units represented approximately 22% of the equity of Acadian, on a fully-diluted basis. At the time of sale, Fraser Papers entered into a 20 year fibre supply agreement under which it has the right to purchase substantially the same volumes of fibre that it historically received from the timberlands. On September 26, 2007, the Company announced the sale of its remaining interest in Acadian for net proceeds of $38.4 million. The proceeds were used to repay indebtedness.

During 2006, the Company purchased $30.0 million in principal amount of its outstanding senior, unsecured notes for $25.9 million resulting in a gain of $3.1 million, net of a write down of deferred financing costs of $1.0 million. In addition, during 2006, the Company purchased for cancellation $66.0 million in principal amount of these notes pursuant to a requirement under the indenture. The repurchase resulted in a cash payment of $51.5 million and the cancellation of $14.5 million of notes held by the Company. In the third quarter of 2007, the Company purchased the remaining $68.5 million of its outstanding senior notes for cancellation and cancelled $15.5 million of notes held by the Company. The repayment was financed, in part, by a $50.0 million bridge loan from the Company's working capital lender.

During 2007, we announced the permanent closure of two paper machines at our East Papers operations representing approximately 70,000 tons of annual production capacity. The closure of these machines resulted in a charge of $15.9 million related to asset impairment, early retirement and severance.

During 2006, the Company received refunds (including interest) of $14.4 million related to duties previously paid under a trade dispute with the United States regarding the export of softwood lumber from Canada.

In April 2006, we permanently closed our pulp mill located in Berlin, New Hampshire as a result of our decision to reduce our exposure to market pulp. Since the closure, the adjacent paper mill in Gorham, New Hampshire has operated using purchased pulp, including hardwood kraft pulp from Fraser Papers' mill in Thurso, Quebec. The closure of the pulp mill resulted in a write-off of assets of $45.2 million and other costs, including severance, of $5.1 million. During the fourth quarter of 2006, we sold the facility for $3.8 million and the plant has since been dismantled.

BUSINESS OF FRASER PAPERS

Fraser Papers is a specialty paper company with integrated pulp and lumber operations. As of March 24, 2009, we operated two paper mills (one integrated, one non-integrated), one market pulp mill and four lumbermills in New Brunswick, Quebec, Maine and New Hampshire. Fraser Papers has been in operation since the late 1800's and employed approximately 2,400 people in the United States and Canada as at December 31, 2008.

Principal Products
The principal products manufactured by Fraser Papers are paper, pulp and lumber.

Our paper products are broadly grouped into six categories: specialty packaging, specialty printing, specialty high-bright groundwood, commodity freesheet, commodity groundwood and towel.

Specialty packaging papers are made to customer specifications, primarily for flexible packaging for food products, and require a high degree of technical expertise. There is typically a lengthy process of developing and qualifying a grade for a particular customer or application. Once products are developed, however, customers tend to value supply continuity and technical support, which makes them reluctant to switch to other suppliers. Specialty packaging papers are generally sold to converters who will manufacture a value added flexible package or bag through various processes based on end customer specifications.

Specialty printing papers include a broad array of grades such as thermal base papers, label papers, commercial printing and lightweight opaque papers. These grades are characterized by narrow technical specifications and require unique manufacturing capabilities. These papers can generally be produced in various colours, with different basis weights and finishes. Specialty printing grades are sold directly to customers or through paper merchants who have a well established distribution network. Brand marketing, customer service and delivery logistics are key sources of competitive advantage for these grades as order sizes can be small and customers are widely dispersed. Technical capabilities are also a competitive advantage in the lightweight opaque grades. Thermal base papers are used in lottery gaming and point-of-sale receipt applications. Label papers are used primarily in commercial packaging applications. Commercial printing papers are used for manuals, direct mail inserts and brochures. Lightweight opaque papers are used for bibles, financial printing, pharmaceutical inserts and reference applications.

Specialty high-bright groundwood papers include primarily financial printing applications where our manufacturing capabilities enable us to provide a groundwood based sheet that has similar characteristics to uncoated freesheet. Specialty high-bright groundwood papers are sold through merchants or directly to printers and publishers.

Commodity freesheet papers include book papers, offset papers, tablet, envelope and other commodity freesheet grades. These commodity papers are subject to significant competition from much larger paper producers due to lower technical requirements. In addition, prices for these grades tend to be more volatile than for specialty grades. Book papers are used in novels and tradebooks. Offset papers, tablet and envelope papers are used in office applications.

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

Towel is primarily bleached and unbleached paper towel for away-from-home applications and is sold to converters through an agent.

Total paper sales represented $564.2 million in 2008 compared to $552.8 million in 2007. The United States is the largest market for our paper products, accounting for about 97.5% of paper sales in 2008. We have sales representatives in the major markets in the United States and are geographically focused on markets in the northeast and north-central regions.

Paper markets in North America are highly competitive. The markets that Fraser Papers services are supplied by domestic and offshore paper companies who compete on the basis of selling price, customer service and product quality.

Our market pulp production consists of northern bleached hardwood kraft (“NBHK”) pulp produced at our mill in Thurso, Quebec. Market pulp is required by manufacturers of paper who lack sufficient internal supply or require pulp of different qualities to supplement their own pulp production. Market pulps are generally classified according to their fibre type, the process used to produce them and the degree to which they are bleached. The hardwood pulp produced at Thurso is sold in North America, Europe and

Asia directly to customers or through agents. In 2008, total pulp sales amounted to $122.0 million (2007 - $130.0 million), of which $75.0 million (2007 - $72.9 million) was sold as market pulp to third parties. During 2008, the Thurso pulp mill shipped approximately 38% of its production to our paper mills. In future years, it is expected the internal use of Thurso pulp will decrease based on higher internal pulp production at the Edmundston pulp mill.

Market pulp is sold world-wide by suppliers in North America, Scandinavia, South America, Asia and other regions. Competition between suppliers is based on the technical qualities of the pulp, price and service. Market demand is a function of paper production in the principal markets of Western Europe, United States, and Asia.

We also produce softwood dimension lumber used in new building construction and repair and renovation. Lumber is a commodity product and competition is primarily based on price, with quality and service being difficult to differentiate. Fraser Papers competes against a large number of North American producers and, to a lesser extent, foreign producers. Demand is cyclical based on, among other things, home building activity and repair and renovation spending; prices can fluctuate widely. Lumber is sold primarily to wholesale distributors, with some sales directly to home builders and lumber yards. In 2008, lumber sales amounted to $49.4 million, down from $89.0 million in 2007.

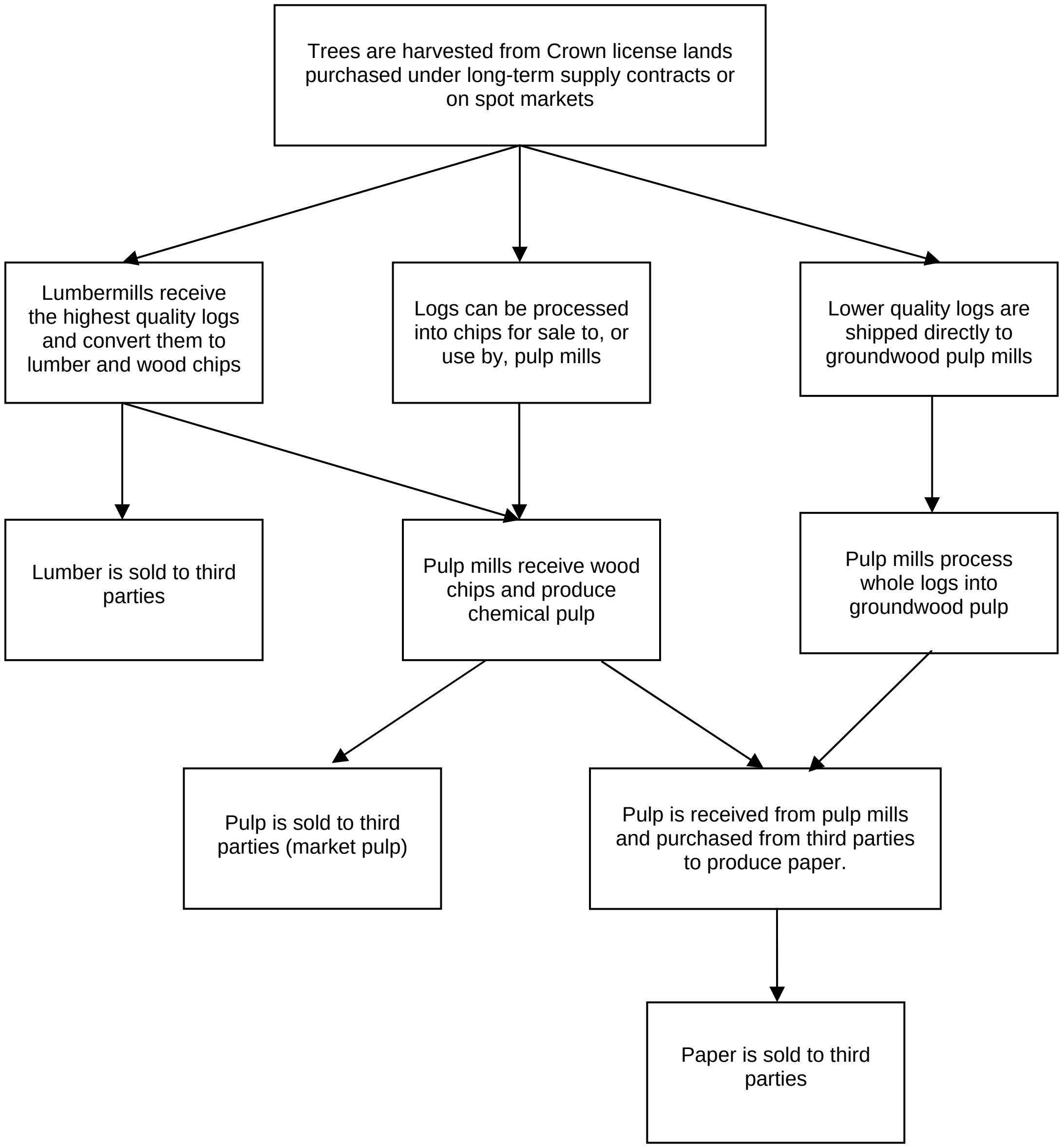
Wood chips are an important by-product of the lumber production process and are a significant source of wood fibre for pulp mills. Our pulp mill in Edmundston consumes substantially all of the chips generated by our four lumbermills.

Principal Plants

The locations of Fraser Papers' mills producing paper, pulp and lumber, their approximate annual capacity as at December 31, 2008, together with their annual production in each of the last two years, are as follows:

	Annual Capacity December 31, 2008	Production 2008	Production 2007
Specialty and Other Freesheet Papers *(000 tons)*			
Gorham, New Hampshire	150	95	130
Madawaska, Maine	260	236	242
	410	331	372
Groundwood Papers *(000 tons)*			
Madawaska, Maine	200	191	184
Towel *(000 tons)*			
Gorham, New Hampshire	40	41	39
Total Paper	650	563	595
Market Pulp *(000 tonnes)*			
Thurso, Quebec	250	216	237
Lumber *(MMfbm)*			
Ashland, Maine	70	14	55
Juniper, New Brunswick	130	17	71
Masardis, Maine	130	124	118
Plaster Rock, New Brunswick	130	48	74
Total Lumber	460	203	318

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



Edmundston and Madawaska ("East Papers")

Our largest paper manufacturing facility is an integrated complex that straddles the international border between Edmundston, New Brunswick and Madawaska, Maine. The Edmundston mill produces bleached softwood sulphite pulp and groundwood pulp which are transferred to the Madawaska paper mill in slurry form. A 38 megawatt biomass cogeneration power plant produces electrical power that is sold under a long-term power purchase agreement to NB Power Corporation and by-product steam that is delivered by pipeline to the Madawaska paper mill. The Edmundston mill is fully integrated with the Madawaska paper mill. The Madawaska mill has a flexible production platform, capable of producing a wide variety of specialty packaging and printing papers, commodity freesheet papers, high-bright and commodity groundwood papers on six paper machines.

East Papers is focused on specialty packaging and printing grades that take advantage of the specific fibre qualities of sulphite pulp, the technical capabilities of our paper machines and our papermaking expertise. In the groundwood sector, we focus on high-bright specialty groundwood papers. We also produce commodity freesheet and groundwood grades.

During 2007, we permanently closed two freesheet paper machines representing 70,000 tons of annual production capacity at our Madawaska, Maine paper mill and an oil-fired boiler and turbine in our Edmundston, New Brunswick pulp mill.

In 2008, approximately 30% (52% in 2007) of the chips required by the Edmundston mill to produce bleached sulphite pulp were supplied from our four lumbermills, 55% were supplied from independent mills and 15% were produced at the wood room at the Edmundston mill. The logs used in the production of groundwood pulp are received under long-term fibre supply agreements; harvested from our Crown licensed lands in New Brunswick; and, purchased from private landowners.

The Madawaska mill receives approximately 79% of its pulp from Edmundston, 7% from Thurso and the remainder is purchased from third parties as softwood kraft pulp or recycled pulp.

Gorham

Our Gorham paper mill has four paper machines that produce specialty printing and commodity freesheet papers and one machine that produces industrial towel products. Since the closure of the integrated pulp mill in Berlin, New Hampshire, the Gorham mill has purchased all of its hardwood kraft pulp requirements from Thurso. In the first quarter of 2008, we announced the temporary shutdown of two paper machines at the Gorham paper mill.

Thurso

The bleached hardwood kraft pulp mill at Thurso, Quebec produces pulp for sale to our two paper mills and on the open market. The mill is well located to serve its major markets in the United States and Canada. The mill also supplies customers in Europe, the Middle East and Asia. Approximately 25% of the mill production in 2008 was specialty pulp for use in the manufacture of high quality printing and writing and decorative laminated papers. Approximately 38% of Thurso’s production was shipped to either Madawaska or Gorham in 2008.

Wood is supplied to the Thurso mill in both log form and chip form with approximately 57% of requirements from logs and 43% from chips. Of the total fibre supply, approximately 33% is provided under Crown licenses, with the remainder purchased from third party lumbermills in the case of chips, or logs from private woodlots.

Lumber Operations

Our Plaster Rock and Juniper lumbermills in New Brunswick produce dimension lumber and woodchips for use at the pulp mill in Edmundston. In 2008, 100% of the chips produced at the New Brunswick lumbermills were sold to the Edmundston pulp mill and represented about 11% of all chips used by the Edmundston pulp mill. 32% of the timber for the New Brunswick lumbermills was harvested under Crown license or purchased under long-term fibre supply contracts, with the remainder purchased from private landowners. In order to reduce financial losses we closed our Juniper lumbermill in October 2007 and entered into a chip and biomass supply agreement with a local lumbermill operator, which involved selling 16% of the annual Crown timber allocated to the mill in return for increased volumes of chips and biomass. The Juniper lumbermill relies on the open market for wood supply and this exposes the mill to supply and to higher raw material prices. The Juniper lumbermill was restarted in September of 2008.

The lumbermills in Maine produce dimension lumber. The majority of the chips are sold to our Edmundston pulp mill, representing 19% of all chips consumed by Edmundston. The remainder is sold to third parties. The mills obtain a portion of their log requirements under long-term fibre supply agreements with the remainder purchased on the open market. Our Maine lumbermills rely on open market wood purchases and this exposes the mills to supply and to higher raw material prices.

Katahdin Paper Company LLC

In October 2003, we entered into an arrangement with Katahdin Holdings LLC, the owner of Katahdin and an affiliate of Brookfield, to manage the assets of Katahdin. Under the arrangement, we receive a management fee equal to a percentage of sales.

Interest in Acadian Timber Income Fund

In January 2006, the Company sold its freehold timberlands in New Brunswick to Acadian for total proceeds of $93.5 million in cash plus 3,613,780 securities that were convertible into units of Acadian. The units represented approximately 22% of the equity of Acadian, on a fully-diluted basis. At the time of sale, we entered into a 20 year fibre supply agreement under which we have the right to purchase substantially the same volumes of fibre that we historically received from the timberlands.

During the third quarter of 2007, the Company sold its remaining interest in Acadian for net proceeds of $38.4 million. As the units in Acadian had a book value of nil, a gain of $38.4 million was recorded on the transaction.

Forest Resources

In conjunction with the sale of our timberlands in Maine and New Brunswick, we entered into 20 year fibre supply agreements whereby we retained the right to purchase fibre in an amount substantially equal to the volume we used from these lands when we owned them. These agreements provide approximately 36% of the roundwood fibre used in our operations in New Brunswick and Maine.

In addition to the fibre supply agreements, we have licenses in New Brunswick on Crown forest lands equivalent in area to approximately 1.3 million acres. The allowable annual cut on these Crown lands is 1.3 million cubic metres. Fraser Papers is entitled to approximately 24% (or 306,000 cubic metres) of the allowable annual cut on these Crown lands. The remaining 76% is allocated to other sub-licensees. Crown licenses provide approximately 32% of the roundwood fibre used in our lumbermill operations.

At the time of the sale of our New Brunswick timberlands, we entered into an agreement with Acadian whereby Acadian will provide management services relating to the Crown lands in consideration for a fee from us. This agreement has a term equal to the term of the Crown licenses, including renewal terms.

All forest operators on Crown lands are accountable for their activities on these lands under the Crown licenses. These provincial licenses generally include provisions for royalty fees (or stumpage charges), levy fees for reforestation and silviculture and sublicensing certain amounts of the annual allowable cut to third parties. The provinces have various legislative programs governing utilization of their forest resources. These programs change from time to time, resulting in changes in land tenure and cutting rights. The major tenure agreements with the provinces are for terms of 20 to 25 years, with renewal provisions. Provincial regulations specify the harvesting and reforestation obligations and set the stumpage price. Restrictions on harvesting have increased over the past several years as a result of an increase in the number of acres protected for wildlife habitat and conservation purposes.

We participated in both the American Forest and Paper Association's Sustainable Forestry Initiative ("SFI") and the Forest Stewardship Council ("FSC") certification programs in 2008. To obtain certification, one must demonstrate a commitment to forest sustainability including sound management planning and the protection of wildlife habitats and water quality. All of our Crown timberlands in New Brunswick are SFI certified. We were the first company in Canada to achieve SFI certification in our private timberlands in 2000, and our lumbermills in New Brunswick and Maine became the world's first lumber manufacturers to be certified under the SFI program in 2002. We have continued our certification process and the Edmundston pulp mill and Madawaska paper mill are now both SFI certified. In addition, the Gorham paper mill and the Thurso pulp mill both received the FSC's chain of custody certification in 2007. More recently, in March of 2009 our East Papers operations also received the FSC's chain of custody certification.

Sales and Marketing

Paper Segment

Paper

We are a leading supplier of value-added specialty packaging, printing and high-bright groundwood papers, other commodity freesheet papers, commodity groundwood papers and towel. The following table shows the approximate distribution of 2008 sales by end-use of paper marketed by us from our East Papers and Gorham paper mills.

Paper Distribution of Sales by End Product (2008 Shipments)	
Specialty packaging papers	14%
Specialty printing papers	37%
Specialty high-bright groundwood papers	23%
Commodity freesheet papers	8%
Commodity groundwood papers	11%
Towel	7%

We currently produce a broad range of value added specialty packaging and printing products. We have actively grown our specialty packaging and printing business by over 58% from 180,000 tons in 2004 to 285,000 tons in 2008. We have accomplished this as a result of our capabilities in research and product development; customer service and technical support; and, our versatile manufacturing platform. In our specialty printing paper grades we differentiate our products in the marketplace by focusing on lightweight grades that are technically challenging to manufacture. We target smaller niche markets that have barriers to entry, less competition and that complement our machine capacities and capabilities. In our specialty high-bright groundwood business, we produce groundwood grades that complement our fine paper product offerings. We sell substantially all of our paper products in the United States and Canada. In 2008, our top five customers for specialty packaging and printing papers as a group accounted for 43% of our specialty packaging and printing paper sales with our largest customer accounting for 16% of paper sales.

Our paper sales office is located in South Portland, Maine and we have 18 sales and marketing staff dedicated to our paper business. Our customer service department, located in Madawaska, Maine, has 19 qualified and trained service technicians, logistics and customer service personnel who complement our direct sales force.

Specialty packaging papers

Our product development group works with our specialty packaging customers to develop coatings, barrier treatments, finishes, weights, and other characteristics to meet the performance requirements of specific end-use markets including food packaging, quick service restaurant packaging and other consumer packaging applications.

The specialty packaging business relies on a team of direct sales representatives and customer service representatives to market and sell approximately 97% of its sales volume directly to customers and converters. In 2008, only 3% of sales of the specialty packaging shipments shipped were made through industrial distributors.

The specialty packaging business has over 75 customers of which 85% are located in North America.

Specialty printing papers

Our specialty printing paper business focuses on the production of lightweight opaque papers and technical papers. Technical paper includes technical printing base papers, thermal base papers, carbonless base papers, stamp and chart papers, flame retardant papers, pressure sensitive labels, wet strength labels, thermal transfer papers and release papers. Lightweight opaque papers are used primarily in financial printing, religious printing, reference publishing, pharmaceutical inserts, educational publishing and book publishing. Our branded products in specialty printing papers are well recognized and include FRASER SNOWLAND™, SNOWLAND OPAQUE™, SNOWBRITE™, CUSTOM PLUS™ PHARMOPAQUE™ and SNOWCOTE. We believe that we hold the leading positions in financial printing and pharmaceutical applications in North America.

Thermal base papers are used to produce lottery tickets, point of sale register tapes, carbonless papers and for label facing applications.

Markets for specialty printing papers are affected by general economic conditions such as employment level, corporate merger activity, retail activity and expenditures on print advertising. Price competition is less common in most of the segments served by the specialty papers business; however, this is under pressure from recent trends of using film and other lower cost substrates instead of paper in some applications.

Customers of the technical papers typically convert and transform base papers into finished rolls and sheets by adding adhesives, coatings and finishes. Such transformed product is then sold to end users.

The specialty printing business sells its products through our sales and marketing organization primarily in three channels: authorized paper merchants; paper brokers; and, direct sales. Merchant and broker sales account for approximately 45% of our customer base in the specialty printing business. Fraser Papers focuses on strategic customer relationships with larger consumers including end users and printers.

Commodity freesheet papers

Commodity freesheet papers include book papers, offset papers, tablet, envelope and other commodity grades with our brands such as FRASER TRADEBOOK, GORHAM OPAQUE, and WILDCAT. These grades represent commodity products where many competitors operate manufacturing facilities of larger scale than our own. In recent years, prices for these products have increased which allowed us to participate profitably in these markets. However, our longer term strategy is to reduce our exposure to these commodity grades as we feel we lack sufficient competitive advantage to be successful.

Demand for commodity freesheet papers is cyclical and dependent on general economic conditions. Demand for these grades has declined over the past several years due to a higher use of electronic media.

Commodity freesheet products are sold directly to end-use customers or through paper merchants and brokers. In 2008, approximately 50% of our sales of these paper grades were sold through merchants or brokers.

The five largest customers of commodity freesheet papers represented approximately 53% of commodity freesheet paper sales in 2008.

Specialty high-bright groundwood papers

Our specialty high-bright groundwood papers business focuses on lightweight publishing markets, including financial printing papers. Technical manufacturing capabilities are important in the production of these high-brightness papers. Specialty high-bright groundwood papers are sold through merchants or directly to printers and publishers. In 2008, approximately 82% of Fraser Papers' specialty high-bright groundwood sales were through paper merchants with the remainder shipped directly to printers or publishers.

Demand for specialty high-bright groundwood papers is dependent on the trends in corporate finance activity for financial printing grades.

During 2008, our five largest specialty high-bright groundwood customers represented approximately 67% of our specialty high-bright groundwood sales with our largest customer representing approximately 35%.

Commodity groundwood papers

Commodity groundwood papers are produced for mass circulation publications such as magazines, catalogues, and advertising inserts. Fraser Papers' strategy is to reduce our exposure to commodity groundwood markets and focus on growing the specialty high-bright groundwood business. Commodity groundwood papers are generally sold to printers or publishers or through paper merchants. In 2008, approximately 46% of paper was sold through paper merchants.

Demand for commodity groundwood papers is highly dependent upon print advertising which tends to follow general economic cycles.

Towel

Our towel is used for commercial applications. In 2008, approximately 99% of our towel sales were through an exclusive distribution relationship with one merchant into local markets in the U.S. northeast, with the remainder sold to two customers on a direct basis.

Market Pulp

Northern bleached hardwood kraft pulp is used by paper mills to manufacture printing and writing paper and tissue. In 2008, worldwide demand for hardwood market pulp was estimated to be 24.4 million tonnes, of which an estimated 3.1 million tonnes was consumed in North America. In 2008, Western Europe and Asia (excluding Japan) were net importers of approximately 9.1 million tonnes of wood pulp and North America and Latin America were net exporters of 9.4 million tonnes.

Our total hardwood pulp production in 2008 amounted to 216,000 tonnes. Of this production, approximately 78,000 tonnes or 36% were used in our own fine paper business. The balance of our output was sold to third-party paper mills in the United States, Canada and Europe via direct sales agreements and sales on the open spot market. Approximately 45% of our open market pulp sales in 2008 were supplied under contract while the remainder was sold on the spot market.

Northern bleached hardwood kraft pulp is a commodity product and pricing is subject to substantial volatility depending on global production capacity and demand. Northern bleached hardwood kraft pulp is subject to increasing competition from eucalyptus pulp manufactured in South America.

Lumber

The principal markets for our lumber products are the United States and Canada. Lumber sales within North America are handled by a sales staff located in our Ashland, Maine office who sell the lumber primarily to wholesale distributors, with some sales directly to lumber yards and home builders.

Our top five lumber customers in 2008 accounted for approximately 37% of lumber sales, with our largest customer accounting for approximately 13% of lumber sales.

Transportation

Our paper, pulp and lumber operations are located adjacent to rail lines and major highway connections to both the TransCanada Highway and Interstate routes. Our operations have the flexibility to load product into various types of road and rail equipment, enabling them to take advantage of the most competitive rates. Distribution arrangements covering rail and ocean transport, terminal handling and storage are in place to provide competitive access to the markets served.

Competition

Paper

Our paper business competes in the North American paper market with competitors including Domtar Inc., Wausau Papers, International Paper Company, Glatfelter, AbitibiBowater, Catalyst Paper Corporation, NewPage, Sappi and UPM Kymmene. The paper industry in North America has generally been consolidating since the 1990s as competitors make acquisitions to achieve greater scale which allows for synergistic cost savings and rationalization of capacity. In the past five years, significant capacity of printing and writing papers has been permanently shut or idled in North America. During this period, very little greenfield and brownfield development has taken place in North America to replace these capacity closures. We believe that the primary bases of competition in our markets are selling price, product quality and customer service. There are other factors that we believe are key to being competitive in certain paper products. For example, because there is typically a lengthy process of developing and qualifying specialty packaging grades for a particular customer or use, once these papers are developed, the value of supply continuity and technical support makes customers reluctant to switch suppliers. In our specialty printing papers, brand marketing and delivery logistics are additional sources of competitive advantage as order sizes can be small and customers are widely dispersed. Technical capabilities are also a competitive advantage in the lightweight opaque grades.

Through 2003, imports of paper products (particularly groundwood grades) to North America increased due to large capacity increases in Europe and a strong U.S. dollar. However, a weaker dollar and stronger Euro since 2004 has led to a reduction of European imports and has created cost pressures for European exporters into the North American markets. Significant capacity additions in fine paper are underway in China and other parts of Asia and it is still uncertain whether this capacity will be absorbed by growth in demand locally or directed at export markets. The paper sector in general remains subject to the threat of substitution from electronic communication media as advertisers and consumers migrate to the internet and other forms of digital information, communication, storage and retrieval.

Market Pulp

Our market pulp business supplies pulp to North America and Europe and competes on a global basis. Examples of our competitors include Aracruz Cellulose, Koch Cellulose (Georgia Pacific) and Domtar. Market demand for pulp is a function of paper production in the principal markets of Europe, United States, Japan, Asia and Canada and suppliers compete to satisfy this demand on the basis of price, quality and service. Pricing for hardwood kraft pulp is highly cyclical. Prices in early 2009 collapsed from their cyclical peak in 2008 as new capacity announced by eucalyptus pulp producers in South America and Asia and a lack of demand in China have resulted in a significant increase in global inventories of hardwood pulp.

Lumber

Our lumber business competes with other regional lumber producers such as J.D. Irving, AbitibiBowater, Tembec and Domtar. Competition in the lumber market is based primarily on price as most lumber is sold at spot market prices in major market centres. The reference market for our lumber business is the Boston market. Lumber mills can differentiate themselves by being located closer to major markets, minimizing transportation costs. We believe that our mills are well located to deliver into northeastern markets. There has not been the same degree of consolidation in the North American lumbermill industry that we have seen in the paper industry.

The market for wood chips in the northeast region has become supply constrained over the past few years. Despite pulp mill closures in the region, chip supply has tightened as production from regional lumbermills is lower due to downtime resulting from weak housing markets and the negative impact of a strong Canadian dollar. Land owners in the northeast have also reduced softwood harvesting levels as a result of lower log prices.

Raw Materials and Energy

We believe that, other than the raw materials discussed below, the raw materials we must purchase for our operations are readily available from several sources and that the loss of a single supplier would not jeopardize or put our manufacturing operations at risk. An adequate supply of water is needed to manufacture our products. We believe that there is an adequate supply of water for this purpose at each of our manufacturing locations.

Paper

Wood pulp is the primary fibre used to produce our paper products. We are an integrated paper producer and we produce sulphite, groundwood, and northern bleached hardwood kraft pulp at our pulp mills for our internal consumption. In addition, we purchase approximately 65,000 tonnes of northern bleached softwood kraft pulp each year from suppliers who have the ability to meet our specifications. Generally, softwood pulp is widely available on the open market. Other significant raw material inputs include latex, dyes, fillers and other chemicals. We purchase these products from various suppliers under short-term and long-term contracts.

The steam and electricity needed to operate our paper machines is generated internally by burning biomass and other fuels and our internal supplies are augmented with market purchases of oil, biomass and power.

Pulp

Hardwood logs and wood chips are the primary raw material used by our market pulp mill in Thurso, Quebec. At Thurso, we access 33% of our log and chip needs from our provincial cutting rights ("CAAF") and 67% is purchased on the open market from local lumbermills, wood marketing boards and private woodlot owners.

Our pulp mill also purchases chemicals and energy. The chemicals consist primarily of commodity chemicals such as sodium chlorate which can generally be obtained from a number of suppliers. The Thurso pulp mill purchases power from Hydro Quebec.

Lumber

Softwood sawlogs of an acceptable size and quality are the critical raw material for our lumbermills. In aggregate, our lumbermills in Maine and New Brunswick obtain 41% of their sawlog requirements from our Crown lands in New Brunswick or under long-term fibre supply agreements. The remaining 59% is purchased on the open market and our lumbermills must compete with other regional lumbermills for access to this fibre.

Backlog and Seasonality

Paper

The specialty packaging business generally experiences a steady quarter-to-quarter shipment flow with a seasonal slowdown in the fourth quarter due to inventory adjustments and customer plant closures during the December holiday season. Notwithstanding relatively steady shipments from quarter to quarter, the order flow for the specialty packaging business is subject to seasonal peaks for several of its products used primarily in the downstream finished goods manufacturing process. To ensure timely shipments during these seasonal peaks, the specialty packaging business holds approximately 11% of its annual shipments in inventory. The specialty packaging business also manages these peaks with sales on consignment representing less than 3% of its annual sales. Orders are typically shipped within two to four weeks of receipt of the order; however, the specialty packaging business periodically experiences periods where order entry levels surge and backlogs increase for short periods of time. Raw materials are purchased and manufacturing schedules are planned based on customer forecasts, current market conditions and individual orders for custom products.

The specialty packaging and printing papers and high-bright groundwood business tends to see increased shipments in the first four months of the year primarily due to demand for financial printing grades. Fraser Papers builds inventory through March each year to support increased shipments through May.

Commodity groundwood shipments see a small increase in the third quarter ahead of the Christmas catalogue season and some weakness in the first quarter due to a slowdown in the printing industry and adjustment of customer inventories. Raw material purchases and manufacturing schedules are planned based on a combination of historical trends, customer forecasts and current market conditions.

Pulp

The market pulp business relies on the activity level of the pulp mills which take seven to ten day shutdowns each year for major maintenance, typically in the second or third quarters of the year. Shutdowns for maintenance and capital projects are sometimes taken in other quarters, resulting in a variation in quarter to quarter pulp shipments. Customer order patterns are consistent, except for a moderate reduction in European orders in the summer. In North America, orders are generally placed one month in advance, while European orders are based on a three month rolling forecast. Asian buying patterns have been historically erratic as opportunistic buying behaviour has often impacted global pulp markets.

Lumber

The lumber business is seasonal with demand peaking late in the first quarter and through the second quarter as the construction cycle begins its spring and summer activity. Activity slows in December and January as the annual construction cycle comes to an end.

Research and Development

Our main product development laboratory is located in Madawaska, Maine. This facility supports our strategy of developing new products and new technologies while supporting our existing product lines. The specialty packaging and printing papers businesses have continually invested in product research and development. New product development is also supported by our laboratory and technical centre in Montréal, Quebec and at our mills, with 31 new specialty products or upgrades developed in 2008.

In addition, we participate in and perform contract work at a number of research organizations including the Pulp and Paper Research Institute of Canada and at various universities.

Environment, Health and Safety

Our operations are subject to federal, state, provincial and local laws, regulations and ordinances relating to various environmental, health and safety matters. Our operations are in compliance with, or we are taking actions designed to ensure compliance with these laws, regulations and ordinances. However, the nature of our operations exposes us to the risk of claims concerning non-compliance with environmental, health and safety laws, regulations and standards, and there can be no assurance that material costs or liabilities will not be incurred in connection with those claims.

We will continue to incur capital and operating expenditures in order to comply with environmental, health and safety laws, regulations and standards. We believe that our future costs of compliance with these laws, regulations and standards, and our exposure to liability for environmental, health and safety claims, will not have a material adverse effect on our financial position. Future events, such as changes in existing laws and regulations, or discovery of contamination at sites owned, operated or used by us may give rise to additional costs which could have a material adverse effect on our financial position, results of operations or liquidity.

We have an environmental, health and safety audit system and all of our facilities are audited on a three year cycle measuring our performance against targets in six areas: environmental, health and safety management systems, impact minimization, stakeholder needs, risk management and compliance. To comply with environmental regulations, a total of over 16,682 measurements of air and effluent emissions were performed during 2008 resulting in an overall compliance rate of 99.88% achievement.

Fraser Papers continuously reviews and modifies the safety management systems at each of our facilities and remains committed to achieving world-class safety performance. In 2008, our OSHA recordable rate was 4.93 compared to 5.65 in 2007.

Employees

As at December 31, 2008, Fraser Papers employed approximately 2,400 people at manufacturing facilities in the United States and Canada. Approximately 70% of these employees are represented by labour unions.

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

A five year collective agreement with the CEP in Edmundston was ratified in May 2005. The agreement was in line with the industry pattern negotiated in 2004. The agreement provides for wage increases totaling 11% over the term of the contract with a mill profit provision, and a ten year freeze on negotiations of pension enhancements. The agreement expires June 30, 2009.

A six year agreement was reached with the USW in 2003 for employees in Madawaska . The agreements provide for no wage increases in the first two years, a one percent increase in the third year and two percent wage increases in each of the next three years. The agreements expire November 1, 2009. During effects bargaining in 2007, we moved the majority of the hourly employees to a defined contribution retirement plan from the existing defined benefit retirement plan.

In 2006, we reached a four year agreement with the CEP at Thurso effective from June 2005 to April 2009 covering approximately 300 employees. The total cost of the agreement is estimated to be approximately 2% per year over four years.

In 2008, we negotiated a two year extension to the Gorham labour agreement, which was set to expire May 31, 2008. The agreement with the USW extends the current collective agreement until May 31, 2010 with no wage increase in year one and a 2.5% increase in year two. The agreement provides for a one-time profit sharing of 10% of EBITDA in excess of $8 million in the twelve months prior to May 31, 2010.

The current four year collective agreement with the New Brunswick Regional Council of Carpenters, Millwrights and Allied Workers at the Plaster Rock lumbermill expired January 31, 2009. Negotiations are currently underway and we anticipate concluding a new agreement with the union in 2009.

Risk Factors

The principal risks to Fraser Papers' businesses include those that would be generally expected of an internationally diverse, capital intensive manufacturing and distribution business. They include:

The paper and forest products industry is highly cyclical and prices of, and demand for, our products may fluctuate significantly based on factors outside of our control.

Some of the products we produce are commodities that are widely available from other producers. Even our products that are not commodities, such as our specialty papers, are susceptible to commodity dynamics. Because commodity products have few distinguishing qualities from producer to producer, competition for commodity products is based to a large degree on price, which is determined by supply relative to demand. As a result, we may have little influence over the timing and extent of price changes.

Demand for our products is correlated to global economic conditions. Periods of economic weakness, reduced spending by consumers and businesses can result in decreased demand for our products, resulting in lower product prices and possibly manufacturing downtime. Demand for our paper products used in publishing, advertising and financial printing have been and will continue to be particularly sensitive to economic trends. In the past, the markets for our products have been characterized by periods of excess product supply due to many factors, including additions to industry capacity, increases in industry production, periods of insufficient demand, and reduced inventory levels held by customers. As a result, the prices for all of our products are driven by a number of factors, many of which are outside of our control.

Historically, changes in demand based on economic and market shifts, fluctuations in production capacity and changes in prices of raw materials and energy have created cyclical changes in prices, sales volume and margins. Prices and demand for our paper, pulp and lumber products have fluctuated significantly in the past and may fluctuate significantly in the future. Any prolonged or severe weakness in the market for any of our principal products would adversely affect our business, financial position, results of operations and cash flows. Besides impacting our revenues, cash flows and earnings, weakness in the market prices of our core products will also have an effect on our ability to attract additional capital to finance our operations, the cost of that capital and the value of our assets.

Intense competition could adversely affect our operations.

The paper and forest products industry is a highly competitive business environment in which companies compete, to a large degree, on the basis of price. The principal market for our products is the United States where we compete with North American companies for many of our products. Many of our competitors have greater financial resources than we do and many of their mills are of larger scale and have lower cost facilities than our own mills.

Some of our competitors have lower energy, fibre and labour costs and fewer environmental and governmental regulations to comply with than we do. Some of our competitors possess more efficient equipment affording them lower manufacturing costs. Others are larger in size, allowing them to achieve greater economies of scale. If we are unable to compete successfully our revenue may decline, which could have a material adverse effect on our business, financial position, results of operations and cash flows.

The availability of, and prices for, wood fibre significantly impacts our business.

Wood fibre is our principal raw material. In recent years, approximately 40% to 55% of our timber requirements, including timber used in exchange for our wood fibre requirements, have been sourced through timber supply and forest management agreements in Canada and sustainable Crown licenses with Canadian provincial governmental authorities held directly by us. The Crown licenses are granted for periods of up to 25 years. These Licenses are subject to renewal every five years which further extends their term. In New Brunswick, the current Crown Timber Licenses expire in 2027. All standards of Crown License Performance in the period 2002 to 2008 have been successfully met. Early in 2008, the Minister of Natural Resources for New Brunswick advised that he would be recommending the term of the Crown Licenses be extended to 2032. We expect to receive formal documentation confirming the extension sometime in 2009. The availability of, and price for, wood fibre from this timber supply is subject to change. Crown licenses include provisions for royalty fees (or stumpage charges) and levy fees for reforestation and silviculture that could be materially increased through amendments to legislation or regulatory regime changes. Furthermore, the Crown licenses contain terms and conditions, which could, under limited circumstances, result in a reduction of annual allowable timber that may be harvested by us without any compensation. Additionally, these licenses can be revoked or cancelled for non-performance and there is no assurance that any offer for renewal or extension will contain acceptable terms. To the extent the availability of wood fibre from these sources is reduced, we will be required to increase our purchase of wood fibre on the open market.

Approximately 35% of our wood fibre requirements are met through long-term fibre supply arrangements or our Crown license arrangements. The remaining 65% of our wood fibre requirements are met by purchasing timber, chips and other wood residues as well as recycled materials on the open market or pursuant to short-term supply agreements in competition with other users of such wood resources. Wood fibre is a commodity, and prices have historically been cyclical due to changing levels of demand and supply. Wood fibre pricing is also subject to regional market influences, and our cost of wood fibre may increase in particular regions in which we operate due to market shifts in those regions. Our more geographically diversified competitors may not be affected by regional price volatility. Any significant increase in wood fibre prices would increase our operating costs and may materially reduce our cash flows. We may be unable to increase prices for our products in response to increased wood fibre costs due to additional factors affecting the demand or supply of these products. Our inability to increase prices for our products in response to increasing wood fibre costs may materially reduce our margins. Additionally, if one or more of our major suppliers of wood fibre stops selling to us, our financial position and operating results may suffer. A lack of access to an internal supply of timber as a result of the recent sale of our freehold timberlands could limit our flexibility in responding to shortages in wood fibre supply resulting in higher operating costs than some of our competitors.

Biomass fuel is generated as a by-product of lumbermill operations and debarking of roundwood at our pulp mills. Biomass fuel is also generated in the woods as a by-product of timber harvesting and as a result of whole tree chipping of low quality hardwoods. At times, biomass is difficult to procure due to poor lumber markets and extensive lumbermill market downtime. The weather can also create challenges to procuring biomass that is generated in the woods. Competition for biomass can create shortages and inflate the price.

Timber harvesting may be limited at any time by natural events, such as forest fires, adverse weather conditions, insect infestation, disease, prolonged drought and other natural and man-made causes, thereby reducing supply and increasing prices for fibre on the open market. These events may also reduce the supply of wood available to us under long-term fibre supply agreements, thereby forcing us to fulfill our fibre requirements through other suppliers.

Environmental litigation, regulatory developments and aboriginal land claims may have an adverse impact on our timber supply or operations in the future.

Certain environmental litigation and regulatory developments have caused significant reductions in the amount of timber available for commercial harvest in the United States. In addition, future legislation and litigation concerning the use of timberlands, the protection of endangered species, the promotion of forest health, and the response to and prevention of catastrophic wildfires could also affect North American timber supplies. Further constraints on the timber supply may be imposed in the future leading to fibre price increases.

In Canada, aboriginal groups have made claims in respect of land governed by Canadian authorities, which could affect a portion of the land covered by our Crown licenses. Any settlements in respect of these claims could lower the volume of timber available to us and could increase the cost to harvest timber on such land.

Price agreement as a result of aboriginal land claims has significantly reduced timber allocations for some companies and increased operating costs on the lands covered by the agreement. In some circumstances, no activity can take place on these lands without approval of the first nations.

In 2005, the Betsiamites Innu First Nation challenged Quebec Crown license rights of one paper producer that effectively challenges the validity of the provincial timber allocation system. In short, the First Nation is claiming that no timber can be allocated by government without consulting them. The case is proceeding slowly and is still in the initial stages. The impact of a negative outcome could have a significant impact on the costs and/or the ability of companies to access fibre on the Crown lands.

In New Brunswick and Quebec, various challenges remain unresolved which could have a negative adverse effect on forest products in the region and Fraser Papers, in particular.

Reductions in the timber that we are able to harvest may force us to increase the proportion of our timber requirements that we purchase on the open market. Further, significant reductions in the amount of timber available for commercial harvest by producers in the regions in which we operate our paper and pulp mills may materially increase the cost of wood fibre. Also, we may not be able to find alternative, comparable suppliers or suppliers capable of providing our wood fibre needs on terms, or in amounts, satisfactory to us. As a result, our business, financial position and operating results could suffer.

Environmental and other government regulations could increase the cost of doing business or restrict our ability to conduct our business.

Our operations are subject to a wide range of general and industry-specific, environmental, occupational health and safety, forestry, labour, tax and other laws and regulations imposed by both Canadian and U.S. authorities. Environmental requirements under such laws and regulations relate to, among other things, air emissions, wastewater discharges, waste management, landfill operations, forestry practices, and site remediation. Compliance with these laws and regulations is a significant factor in our business and we incur, and expect to continue to incur, 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 of such laws and regulations or the discovery of previously unknown contamination or other liabilities relating to properties owned by us may give rise to additional costs that could require significantly increased capital expenditures which would reduce the funds otherwise available for operations, capital expenditures, future business opportunities or other purposes. For example, lower permitted limits for the emission of carbon dioxide and other greenhouse gases, may require us to reduce production or invest in the installation of additional pollution control equipment.

Furthermore, failure by us to comply with applicable environmental and safety laws and regulations, and the permit requirements related thereto, could result in civil or criminal fines or penalties or enforcement actions, including regulatory or judicial orders enjoining or curtailing operations or requiring corrective measures, installation of pollution control equipment or remedial actions, any of which could result in significant capital expenditures or reduced results of operations.

We are exposed to currency exchange risk that could have a negative impact on us.

All of our sales are denominated in U.S. dollars while a significant portion of our operating costs are incurred in Canadian dollars. Therefore, an increase in the Canadian dollar relative to the U.S. dollar increases our operating costs in U.S. dollar terms, which reduces our operating margins and also the cash flow available to fund our operations. As a result, significant fluctuations in relative currency values could negatively affect the cost competitiveness of some of our facilities, the value of our foreign investments and our financial position. From time to time, we may hedge a portion of our net foreign currency denominated cash flows, consisting primarily of our Canadian dollar-denominated costs, using foreign exchange forward contracts or other derivatives. All derivative contracts are governed by treasury policies which have been approved by our Board of Directors and stipulate, among other things, minimum acceptable counter-party credit ratings.

Fraser Papers measures transactions and reports its financial results in U.S. dollars. For the purposes of financial reporting, any change in the relative value of the Canadian dollar against the U.S. dollar during a given financial reporting period would result in a foreign currency loss or gain on the translation of any Canadian dollar-denominated monetary assets or liabilities into U.S. currency under Canadian GAAP. It is our policy to enter into foreign exchange forward contracts, or other hedging contracts, so that the gain or loss on these contracts serves to offset any loss or gain on translation of the Canadian dollar-denominated monetary asset and liability into U.S. dollars. Due to timing differences between cash flows associated with derivative contracts and the Canadian dollar-denominated asset or liability, we may not be fully hedged at a given point in time. Consequently, our reported earnings could fluctuate materially as a result of foreign exchange translation gains or losses.

An increase in the cost of our purchased energy or other raw materials could lead to higher manufacturing costs, thereby reducing our margins.

We are a significant consumer of electricity and fuel oil, the prices of which have been volatile in recent years. We purchase fuel oil from various suppliers at market prices. From time to time, we enter into short-term, fixed price purchase agreements directly with suppliers to lock in prices. We purchase electricity from government run and private producers of electricity in both regulated and unregulated jurisdictions. Some of this electricity is purchased under long-term supply agreements which may include penalties if these contracts are broken. In the future, changes in the available prices and terms of our energy supply contracts could adversely affect our earnings and financial position.

We do not own or control mills that produce softwood kraft pulp and must buy our softwood kraft pulp through supply agreements or on the open market. We purchase approximately 83,000 tonnes of softwood kraft pulp on the open market each year. If any of these agreements were to be terminated for any reason, or not renewed upon expiration, or if market conditions were to substantially change, we may not be able to find alternative, comparable suppliers or suppliers capable of providing our wood pulp needs on terms or in amounts satisfactory to us. As a result, our business, financial position and operating results could suffer.

Other raw materials that we use include various chemical compounds, including titanium dioxide, peroxide, fluorocarbon, retention aids and dyes. Although not as substantial as our fibre or energy costs, purchases of chemicals comprise a significant portion of our operating costs. The costs of these chemicals have historically been volatile, and pricing is subject to factors beyond our control. Any increase in energy or raw materials costs may reduce our operating margins as we may not be able to increase our prices in response. Any sustained increase in either could have a material adverse effect on our business, financial position and results of operations.

Trade restrictions regarding trade in softwood lumber products between the United States and Canada may have a negative impact on our profitability.

Our lumber operations in New Brunswick and Maine are excluded from any effect of the current trade agreement between Canada and the United States regarding softwood lumber. This agreement effectively serves to reduce shipments of lumber from regions in Canada other than the Maritimes to the United States under certain circumstances. However, as with all managed trade, the existence of the agreement may cause those lumber producers who are affected by the agreement to behave in a manner which is different than they would have in the absence of such an agreement. This conduct could lead to changes in supply, prices or both. Continued restriction on shipments by Canadian producers into the United States could have a material impact on the profitability of our lumbermills in Canada.

Some of our products are vulnerable to long-term declines in demand due to competing technologies or materials.

We have experienced and may continue to experience decreased demand for some of our products as a result of electronic substitution of these products. 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. The growth in the use of plain paper fax machines and small office printers has slowed dramatically as e-mail deliveries and the electronic storage of documents have become more widely accepted. The growth of internet directories could impact the use of paper-based directories and certain of our specialty packaging grades are subject to substitution by non-paper based competitive products.

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. If we are unable to develop new sources of demand to effectively respond to electronic substitution and changing customer preferences, our financial position and results of operations may be adversely affected.

Our business is subject to many operational risks for which we may not be adequately insured.

Our business is subject to the risks of operating pulp and paper mills and lumbermills, such as unforeseen equipment breakdowns, power failures, fires, severe weather or any other event, including any event of force majeure, which could result in material repair or replacement expense and a prolonged shutdown of any of our mills. A prolonged mill shutdown at any of our major facilities could materially adversely affect our business, financial position, results of operations and cash flows. Although we maintain insurance, including business interruption insurance, there can be no assurance that we will not incur losses beyond the limits of, or outside the coverage of, such insurance. From time to time, various types of insurance for companies in the pulp and lumber industries have not been available on commercially acceptable terms or, in some cases, have been unavailable. For example, we do not insure and cannot obtain insurance against certain environmental risks as insurance is not available on commercially acceptable terms. In addition, there can be no assurance that in the future we will be able to maintain existing coverage or that premiums will not increase substantially.

Our mills experience shutdowns that could adversely affect our financial position and results of operations.

In addition to scheduled and unscheduled maintenance shutdowns, depressed commodity prices 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 or in response to the market irregularities caused by the trade agreement between Canada and U.S. over softwood lumber trade. During such temporary shutdowns, we may need 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.

In addition, a number of circumstances could cause unexpected production disruptions, including shortages of raw materials, disruptions in the availability of transportation, labour disputes and mechanical or process failures. These mill shutdowns could result in the loss of existing customer relationships and could impact our ability to attract new clients or maintain favourable relationships with suppliers of raw materials.

Mill closures may be for extended periods. In addition, if our mills are shut down, they may experience prolonged startup periods, ranging from several days to several weeks. The shutdown of our mills for a substantial period of time for any reason could have a material adverse effect on our financial position and results of operations.

Work stoppages or other labour disruptions at our facilities could have a material adverse effect on our business.

As at December 31, 2008, we employed approximately 2,400 people at manufacturing facilities in the United States and Canada. Approximately 70% of these employees are represented by labour unions. In 2009, labour agreements at Edmundston, Madawaska, Thurso and Plaster Rock expire. There can be no assurance that we will be able to reach agreement with our employees at future contract negotiations without work stoppages by the affected workers or increased operating costs as a result of higher wages or benefits paid to union members. We might also experience a material labour disruption or significantly increased costs at one or more of other facilities, either in the course of negotiating future labour agreements or otherwise. Labour disruptions or increased labour costs could have a material adverse effect on our financial position and results of operations.

We may not have the capital required to maintain our facilities.

The production of lumber, pulp and paper is capital intensive. Although we maintains our production equipment with regular periodic and scheduled maintenance, there can be no assurance that key pieces of equipment in Fraser Papers' various production processes will not need to be repaired or replaced. The costs of repairing or replacing such equipment and the associated downtime of the affected production line could have a material adverse effect on Fraser Papers' business, financial position and results of operations.

The Company has debt coming due in 2009 which it may not be able to refinance.

The Company has $25 million of debt which matures in September 2009. The Company's history of weak profitability and negative cash flow, along with a recent tightening of worldwide credit markets will make refinancing this debt difficult. While the Company is currently looking at options to refinance this debt maturity (including additional issuances of debt and/or equity capital), there can be no assurance that such options will be available or successful.

Fraser Papers is dependent on the financial support of Brookfield.

Fraser Papers is dependent upon the continued support of its largest shareholder, Brookfield, to support certain of its long term obligations including guarantees on certain of the Company's outstanding debt. There can be no assurance that Brookfield will continue to support the finances of Fraser Papers.

We are subject to indemnification obligations in connection with our distribution from Norbord.

In connection with our distribution from Norbord on June 30, 2004 (the "Distribution"), we entered into an arrangement agreement with Norbord which contains a number of representations, warranties and covenants, including (a) an agreement by each of the parties to indemnify and hold harmless each other party against any loss suffered or incurred resulting from a breach of a representation, warranty or covenant; and (b) a covenant that each party will not take any action, omit to take any action or enter into any transaction that could adversely impact certain tax rulings received in connection with the Distribution, including government opinions and related opinions of counsel and the assumptions upon which they were made.

Should we be found to have breached our representations and warranties or should we fail to satisfy the contractual covenants, we would be obligated to indemnify Norbord for losses incurred in connection with such breach or failure. In addition, under the arrangement agreement, we are required to indemnify Norbord against any loss which it may incur resulting from a claim relating to us, our business or our assets, whether arising prior to or after the completion of the Distribution, as well as any loss which Norbord may incur from certain claims arising prior to the completion of the Distribution relating to a U.S. corporation formerly named Fraser Papers Inc. retained by Norbord. An indemnification claim against us pursuant to the provisions of the arrangement agreement could have a material adverse effect on us.

Our expenditures for pension obligations are significant and could be materially higher than we have predicted if our underlying assumptions prove to be incorrect.

We have significant pension liabilities under our defined benefit pension plans. As at December 31, 2008, we estimate that our pension plans' assets were approximately $337.3 million while our accrued benefit obligations were approximately $508.8 million, yielding an unfunded liability of $171.5 million. Our policy is to fund in accordance with all applicable laws and regulations. If actual results differ from our assumptions, cash expenditures and cash costs that we incur in respect of our pension funding requirements could be materially higher, which may have a material adverse effect on our cash flows and liquidity. Moreover, regulatory changes could increase our obligations to provide these or additional benefits.

Our existing credit agreements contain restrictions that limit our operating and financial flexibility.

The terms of our existing credit and financial commitment agreements contain covenants that, among other things, limit our ability to:

- incur additional indebtedness or grant further encumbrances;
- provide financial assistance in the form of guarantees or otherwise to third parties; and
- pay dividends, issue securities and make investments.

Complying with these covenants and restrictions, as well as any restrictions that may be contained in any future debt instruments and other transaction documents, may limit our ability to execute certain transactions. Our ability to comply with these covenants will depend on our future performance, which may be affected by events beyond our control. Our failure to comply with any of these covenants or restrictions when they apply may result in a default under the particular debt instrument or other transaction document, which could permit acceleration of other indebtedness. In an event of default, we may not have sufficient funds to make the required payments under our indebtedness or other obligations.

Additional information on Fraser Papers' business risks is included in the Management's Discussion and Analysis, which is included in the Company's annual report for 2008.

DIVIDENDS

The Company was established as a separate publicly traded company on June 30, 2004 and has not paid any dividends. Dividends on Common Shares are declared solely at the discretion of the Board of Directors.

CAPITAL STRUCTURE

As at December 31, 2008 the authorized capital of the Company was as follows:

- *Common Shares:* An unlimited number. Common shareholders are entitled to one vote per share at all shareholders meetings and are entitled to receive dividends if, as and when declared by the Board of Directors.
- *Class A and Class B Preferred Shares:* An unlimited number. Class A and Class B preferred shares are issuable in series. The Board of Directors is empowered to fix the number of shares in, and the designation and attributes of each series which may include or exclude voting rights.
- *Non-Voting Participating Shares:* An unlimited number. The Board of Directors is empowered to fix the number of shares in, and the designation and attributes of each series which may include a preferential dividend or priority in any distribution of assets.

As at December 31, 2008, issued and outstanding capital consisted of 50,166,789 Common Shares. There were no other classes of shares outstanding in 2008 or 2007.

RATINGS

The Company has no rated indebtedness outstanding as at December 31, 2008.

Further information on the capital resources of the Company are provided in the 2008 Management's Discussion and Analysis.

MARKET FOR SECURITIES

The Company's Common Shares are listed for trading on the Toronto Stock Exchange under the symbol FPS.

From January 1, 2008 through December 31, 2008, the Company's Common Shares traded in a range of between C$3.20 and C$0.23 per share, ending the year at C$0.33 per share. Average daily volume traded during the year was 18,976 shares. The high and low prices and average daily trading volume for each month is summarized below.

Month	High (C$)	Low (C$)	Volume (Shares)
January	$3.00	$2.68	212,075
February	$3.20	$2.78	89,854
March	$2.81	$2.26	29,034
April	$2.74	$2.26	44,675
May	$2.28	$1.77	104,548
June	$2.26	$1.81	61,192
July	$2.00	$1.51	98,556
August	$1.84	$1.62	279,772
September	$1.74	$1.40	1,420,064
October	$1.71	$0.95	1,017,479
November	$1.00	$0.69	116,174
December	$0.72	$0.23	1,270,690
Full Year	$3.20	$0.23	4,744,113

DIRECTORS AND OFFICERS

Directors

The Directors of the Company as of March 24, 2009 are set out below. Each Director who is elected or appointed holds office until the next annual meeting of shareholders or until a successor is elected or appointed. The Board of Directors has four committees, as of March 24, 2009, and the membership of those committees is included below.

Name and Municipality of Residence	***Principal Occupation During the Five Preceding Years***	***Director Since***
Rorke B. Bryan, Ph.D.(3)(4) Toronto, Ontario, Canada	Corporate Director and consultant since 2005; Dean of the Faculty of Forestry and Professor of Environmental Sciences at the University of Toronto prior thereto.	2005
Jack L. Cockwell(4) Toronto, Ontario, Canada	Group Chairman, Brookfield Asset Management Inc. (asset management).	2004
Paul E. Gagné, CA(1)(4) Senneville, Québec, Canada	Chairman, Wajax Income Fund (mobile equipment, industrial components and power systems) since 2006; Corporate Director prior thereto.	2004
Dominic Gammiero Mississauga, Ontario, Canada	President and Chief Executive Officer, Western Forest Products Inc. (forest products) since November 2008; Managing Partner, Tricap Partners Ltd. (restructuring) since 2007; Chairman of the Company since 2007; Chief Executive Officer of the Company from 2004 to 2007; President and Chief Executive Officer of Norbord Inc. (panel products) prior thereto.	2004
J. Peter Gordon Toronto, Ontario, Canada	Chief Executive Officer of the Company since 2007; Chief Financial Officer from 2006 to 2007; Managing Partner, Brookfield Asset Management Inc. prior thereto.	2007
Robert J. Harding, FCA(2) Toronto, Ontario, Canada	Chairman, Brookfield Asset Management Inc.	2004
Aldéa Landry, C.M., Q.C.(1)(2)(3) Moncton, New Brunswick, Canada	President, Landal Inc. (consulting).	2004
Margot Northey, Ph.D.(1)(2)(3)(4) Victoria, British Columbia, Canada	Corporate Director	2004
Samuel J.B. Pollock, CA(3)(4) Toronto, Ontario, Canada	Senior Managing Partner, Brookfield Asset Management Inc. and CEO of Brookfield's infrastructure group	2004

(1) Member of Audit Committee
(2) Member of Corporate Governance and Nominating Committee
(3) Member of Environment, Health and Safety Committee
(4) Member of Human Resources and Pension Committee

Brookfield, directly or indirectly, owns approximately 70.5% of the outstanding Common Shares of the Company.

Executive Officers

The Executive Officers of the Company as of March 24, 2009 are set out below.

Name and Municipality of Residence	***Office with Company***	***Previous occupation***
Dominic Gammiero Mississauga, Ontario, Canada	Chairman	Chief Executive Officer, 2004 to 2007; Chief Executive Officer, Norbord Inc., 1999 to 2004.
J. Peter Gordon Toronto, Ontario, Canada	Chief Executive Officer	Chief Financial Officer, 2006 to 2007; Managing Partner, Brookfield Asset Management Inc., 1998 to 2006.
Jeffrey Dutton Scarborough, Maine, U.S.A.	President and Chief Operating Officer	Senior Vice President and Chief Operating Officer, 2008 to 2009; General Manager, East Papers, Fraser Papers Limited, 2006 to 2008; President, Republic Paperboard Company, 2004 to 2006.
Glen McMillan Toronto, Ontario, Canada	Senior Vice President and Chief Financial Officer	Chief Administrative Officer, 2004 to 2007; Vice President, Controller and Corporate Secretary, Norbord Inc., 1999 to 2004.
William Manzer Scarborough, Maine, U.S.A.	Senior Vice President, Business Strategy and Projects	Vice President, Operations, Fraser Papers Limited, 2003 to 2005; Vice President, East Papers, prior thereto.

As of March 24, 2009, the Directors and executive officers of the Company as a group own, directly or indirectly, or exercise control or direction over approximately 1.8 million Common Shares of the Company and none of the voting securities of any of the Company's subsidiaries.

Cease Trade Orders, Bankruptcies, Penalties or Sanctions

None of the Company's directors is, or within ten years prior hereto has been, a director, chief executive officer or chief financial officer of any company that was subject to a cease trade or similar order except Paul Gagné. Early in November 2006, Mr. Gagné resigned as a director of Gemofor Inc., a small, privately held manufacturer of sawmilling equipment. In December 2006, Gemofor declared bankruptcy.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Subsequent to December 31, 2008, we announced the sale of approximately 10,500 tons of finished goods paper inventory to Brookfield for proceeds of approximately $11.7 million. In addition, we have 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.

The Company pays fees to Brookfield in connection with guarantees to the Company's lenders in support of 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.

Brookfield has provided the Company with a facility with a notional amount of $350 million to enter into forward foreign exchange contracts as part of the Company's hedging activities. As at December 31, 2008, the Company had entered into forward foreign exchange contracts of $141.3 million under this facility.

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%.

Fraser Papers purchases goods and services from Brookfield and its affiliates. During 2008, we purchased approximately $4.8 million of electricity from Brookfield and its affiliated companies. During 2008, Fraser Papers sold $1.7 million of goods and services to Katahdin.

In January of 2006, the Company sold its timberlands in New Brunswick to Acadian, a newly formed income fund, for net proceeds of approximately $125.0 million, including cash of $93.5 million and $31.5 million of securities. The securities were convertible into 3,613,780 units of Acadian, representing a 22% interest on a fully-diluted basis, and were entitled to the same rights as units of Acadian. Brookfield also owns a significant retained interest in Acadian and provides asset management services to Acadian. In September of 2007, the Company sold its interest in Acadian for net proceeds of approximately $38.4 million. The Company has also entered into a fibre supply agreement and Crown lands services agreement with Acadian. The fibre supply agreement has a term of 20 years, with an option to extend the agreement for a further 5 years. Fibre purchases from Acadian during 2008 were $26.0 million. The Company paid $1.0 million to Acadian as a fee for administering the Company's Crown Licenses.

The Company has invested $10.0 million in convertible term preferred units of Katahdin, an indirectly wholly-owned subsidiary of Brookfield. Katahdin currently operates one paper mill in Maine. The units earn a preferential cumulative distribution of 5% per annum and are convertible into common equity units of Katahdin. In addition, a wholly-owned subsidiary of the Fraser Papers (the "lessee") has leased certain productive equipment owned by Katahdin. The amount of the lease payments are determined with reference to the profits generated by those assets such that all of the profits earned by the lessee on those assets, net of a management fee, are remitted to the lessor as a lease payment. During 2008, the lessee earned $7.5 million after all lease payments to the lessor.

During 2005, the Company maintained interest-bearing deposits with an affiliate of Brookfield on a demand basis. The interest earned on the deposits was at market rates. As at December 31, 2008, the Company had no deposits outstanding.

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 on terms that are satisfactory to us.

TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar is:

CIBC Mellon Trust Company
P.O. Box 7010
Adelaide Street Postal Station
Toronto, Ontario M5C 2W4
Phone: 1-800-387-0825

MATERIAL CONTRACTS

Since January 1, 2008, Fraser Papers has not entered into any material contracts, other than in the ordinary course of business:

AUDITORS

Ernst & Young LLP ("E&Y") have prepared an audit report on the audited consolidated financial statements of the Company as at December 31, 2008 and 2007 and for the years then ended. None of the designated professionals of E&Y beneficially own, directly or indirectly, any of the Company's outstanding securities. E&Y are independent with respect to the Company within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario.

AUDIT COMMITTEE INFORMATION

The Audit Committee of the Board of Directors (the "Audit Committee") is comprised of three directors, as of March 24, 2009, being Paul Gagné (Chair), Aldéa Landry and Margot Northey. Each member of the Audit Committee is an independent director and financially literate under the standards established by Canadian securities regulatory authorities in National Instrument 52-110 – Audit Committees. During 2008, the Audit Committee met six times and each meeting included a session with only E&Y and the members of the Audit Committee. A written copy of the Audit Committee's terms of reference is attached as Schedule A to this Annual Information Form.

Relevant Education and Experience

Paul E. Gagné, CA – Chair

Mr. Gagné is a chartered accountant and has extensive experience with accounting and audit committee functions. He received his CA designation from the Institute of Chartered Accountants of Ontario in 1974. Mr. Gagné is Chairman of Wajax Income Fund, a distributor and service support provider of mobile equipment, industrial components and power systems. He was President and Chief Executive Officer of Avenor Inc., a producer of forest products, from 1991 to 1997. In that role, Mr. Gagné supervised the Chief Financial Officer. He currently serves on or chairs the audit committees of the following publicly traded companies: CAE Inc., Inmet Mining Corporation and Textron Inc.

Aldéa Landry, C.M., Q.C.

Ms. Landry is President of Landal Inc., an organizational and business development firm, and of J.F.L. Arbitration Services Inc. She is also a director of The Shaw Group Limited, Moosehead Breweries Limited, the Canadian Foundation for Economic Education, the Canadian Investor Protection Fund, the Oxford Frozen Foods Advisory Board and Chair of New Brunswick Regional Health Authority A. Ms. Landry is a former cabinet minister and deputy premier of New Brunswick. In addition to studying accounting in law school, Ms. Landry has acquired relevant education and experience while serving as a member of audit committees, on private boards and crown corporations and through attending continuing education seminars.

Margot Northey, Ph.D.

Dr. Northey served as Dean of Queen's University School of Business from 1995 to 2002, during which time the school strengthened its reputation internationally for innovation and high quality. An expert in management communications, she has published many articles and seven books and has acted as consultant for private and public organizations from coast to coast. She has served on nine corporate boards, including four audit committees. Currently, in addition to Fraser Papers, she is a director of Wawanesa Insurance, Norbord Inc. and British Columbia Transmission Corporation. A graduate of the University of Toronto, she holds an M.A. and Ph.D. from York University.

Pre-approval Policies and Procedures

The Audit Committee has adopted a policy regarding the provision of non-audit services by the Company's external auditors. This policy requires Audit Committee pre-approval of permitted audit, audit-related and non-audit services. It also specifies a number of services that the Company's external auditors cannot perform, including the use of its external auditors for financial information system design and implementation assignments.

External Auditor Service Fees

The following table sets forth the fees billed by E&Y to the Company for the past two years.

	Fees Paid	
	2008	**2007**
Audit services	$492,000	$561,000
Audit-related services	$118,000	280,000
Taxation services	—	—
Other non-audit services	$18,000	16,000
Total for all services	$628,000	$857,000

Description of Services:

Audit services include the audit of the annual financial statements of the Company and its subsidiaries and the review of the Company's unaudited interim financial statements.

Audit-related services include audits of the Company's pension plans, interpretation of accounting and reporting standards, review of filed documents in support of rights offering and potential acquisitions and internal control reviews.

Other non-audit services consist of translation services.

FORWARD-LOOKING INFORMATION

This Annual Information Form contains forward-looking information and forward-looking statements within the meaning of Canadian provincial securities laws. We may make such statements in this Annual Information Form, in other filings with Canadian securities regulators or in other communications. These forward-looking statements include, among others, statements with respect to our financial and operating objectives and strategies to achieve those objectives, as well as the outlook for our business and for the Canadian, United States and global economies and other statements with respect to our beliefs, outlooks, plans, expectations and intentions.

Forward-looking information typically contains statements with words such as "continue", "toward", "proposition", "ongoing", "maintaining", "look", "future", "believe", "will", "expect", "can", "typical", "feel", "depend", "subject", "anticipate", "may", "possible", "would", "could", "should", "subject", "result", "certain", "seek", "might", "arising", "when", "potential", "tend", "primarily", "generally", "represent", "position", "estimate", "often", similar words, or variations of those words suggesting 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. Forward-looking statements may also reflect the possible effects if certain future events were to occur, as discussed in the "Risks of the Business" section of this document. They may also reflect other expectations or beliefs, objectives or assumptions about our market and competitive position and about future events or performance, based on information currently available. Readers should be aware that these statements are subject to known and unknown risks, uncertainties, assumptions that may prove to be incorrect and other factors that could cause actual results to differ materially from those suggested by the forward-looking statements.

The significant risks that could impact our business and our future performance are discussed in the "Risks of the Business" section of this document as well as our 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 we believe we have 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. Actual results and future events could differ materially from those anticipated in such statements.

ADDITIONAL INFORMATION

The Company's Management Information Circular dated March 10, 2009 contains additional information concerning Fraser Papers including Directors' and Officers' remuneration, principal holders of Common Shares and our stock option and deferred share unit plans. Additional financial information about Fraser Papers is included in the Company's Consolidated Financial Statements for the year ended December 31, 2008 and Management's Discussion and Analysis.

These documents and additional information about Fraser Papers and our operations can be found on Fraser Papers' web site at www.fraserpapers.com or on SEDAR at www.sedar.com.

APPENDIX A

AUDIT COMMITTEE – TERMS OF REFERENCE

1. ROLE OF AUDIT COMMITTEE

The role of the audit committee (the "Committee") is to assist the board of directors (the "Board") in its oversight of the integrity of the financial and related information of the Corporation including its financial statements, the internal controls and procedures for financial reporting and the processes for monitoring compliance with legal and regulatory requirements and to review the independence, qualifications and performance of the external auditor of the Corporation. Management is responsible for establishing and maintaining those controls, procedures and processes and the Committee is appointed by the Board to review and monitor them.

2. AUTHORITY AND RESPONSIBILITIES

In carrying out its role, the Committee has the following authority and responsibilities:

(a) Financial Information and Reporting

(i) to review and discuss with management and the external auditor, as appropriate:

- the annual audited financial statements and the interim financial statements including the accompanying management's discussion and analysis; and
- earnings guidance and other releases containing information taken from the Corporation's financial statements prior to their release;

(ii) to review the Corporation's financial reporting and accounting standards and principles, any proposed material changes to them or their application and the appointment of management personnel responsible for financial reporting and accounting.

(b) Internal Controls – to review, with the chief financial officer, the external auditor and others, as appropriate, the Corporation's internal controls.

(c) External Audit

(i) to recommend to the Board, for shareholder approval, the external auditor that will be nominated to examine the Corporation's accounts, controls and financial statements on the basis that the external auditor reports directly to the Committee as representatives of the shareholders of the Corporation;

(ii) to recommend to the Board the compensation of the external auditor;

(iii) to evaluate the audit services provided by the external auditor including any disagreement between management and the external auditor regarding financial reporting or otherwise, pre-approve the audit plan and all audit fees and recommend to the Board, if necessary, the replacement of the external auditor;

(iv) to review the post-audit or management letter, containing the recommendations of the external auditor, and management's response;

(v) to pre-approve any non-audit services to be provided to the Corporation by the external auditor and the fees for those services;

(vi) to obtain and review at least annually a written report by the external auditor setting out the auditor's internal quality-control procedures, any material issues raised by the auditor's internal quality-control reviews and the steps taken to resolve those issues; and

(vii) to review at least annually the relationships between the Corporation and the external auditor in order to establish the independence of the external auditor.

(c) **Risk Management** – to review and monitor the Corporation's major financial risks and risk management policies and the steps taken by management to mitigate those risks.

(d) **Compliance**

(i) to review the adequacy of the Corporation's financial reporting procedures and policies, including the public disclosure of financial information, and to investigate any non-compliance with those procedures and policies; and

(ii) to establish procedures for the receipt and treatment of any complaint regarding accounting, internal accounting controls or auditing matters including procedures for the confidential, anonymous submissions by employees of concerns regarding questionable accounting or auditing matters.

3. Composition and Procedures

(a) **Size** – The Committee will consist of a minimum of three directors. The members of the Committee are appointed by the Board upon the recommendation of the Corporate Governance and Nominating Committee and may be removed by the Board in its discretion.

(b) **Qualifications** – All members of the Committee must meet the independence and financial literacy requirements of applicable regulatory authorities and at least one member of the Committee must be a financial expert.

(c) **Meetings** – The Committee will meet at least five times a year and a portion of each meeting will be held without the presence of management. The Chair of the Committee will report to the Board following meetings of the Committee.

(d) **Review of Financial Statements** – The Committee will review the Corporation's annual audited financial statements and interim unaudited financial statements with the CEO and CFO and then the full Board.

(e) **Review of CEO and CFO Certification Process** – In connection with its review of the annual audited financial statements and interim financial statements, the Committee will also review the process for the CEO and CFO certification with respect to the financial statements and the Corporation's disclosure and internal controls, including any material deficiencies or changes in those controls.

(f) **Review of Earnings and Other Releases** – The Committee will review with the CFO any earnings guidance to be issued by the Corporation and any news release containing financial information taken from the Corporation's financial statements prior to the release of the financial statements to the public.

(g) **Approval of Audit and Non-Audit Services –** In addition to recommending the external auditor to examine the Corporation's financial statements, the Committee must approve any use of that external auditor to provide non-audit services prior to its engagement. It is the Committee's practice to restrict the non-audit services that may be provided by the external auditor in order to minimize relationships that could appear to impair the objectivity of the external auditor.

(h) **Hiring Guidelines for Independent Auditor Employees** – The Committee will adopt guidelines regarding the hiring of any partner or employee or former partner or employee of any external auditor of the Corporation.

(i) **Audit Partner Rotation** – The Committee will ensure that the lead audit partner assigned by the external auditor to the Corporation, as well as the independent review partner charged with reviewing the financial statements of the Corporation, are changed at least every five years.

(j) **Process for Handling Complaints about Accounting Matters** – The Committee has established the following procedure for the receipt and treatment of any complaint received by the Corporation regarding accounting, internal accounting controls or auditing matters:

(i) The Corporation will retain an independent third-party ethics reporting service to facilitate reporting by telephone, the Internet or mail and will communicate, and make accessible, the contact details to all staff, customers and suppliers.

(ii) Notification of all reports will be forwarded by the ethics reporting service to the Chair of the Committee and applicable members of senior management, with the exception of reports designated as “sensitive”, which will be sent to the Chair of the Committee only.

(iii) All complaints will be investigated by senior management, working closely with the Chair of the Committee.

(iv) The status of each complaint will be reported on a quarterly basis to the Committee and, if the Committee so directs, to the full Board.

The Corporation’s Code of Business Conduct prohibits any director, officer or employee of the Corporation from retaliating or taking any adverse action against anyone for raising or helping to resolve a complaint.

(k) **Access to Independent Advisors** – The Committee may at any time retain outside financial, legal or other advisors at the expense of the Corporation. Any member of the Committee may, subject to the approval of the Chair of the Board, retain an outside advisor at the expense of the Corporation.

(l) **Evaluation** – The Committee will conduct, in conjunction with the Corporate Governance and Nominating Committee, a formal, bi-annual evaluation of the performance of the Committee and the adequacy of these terms of reference and recommend any proposed changes to the Board for approval. In addition, the Committee will assess its effectiveness annually and the Chair of the Committee will report on that assessment to the Corporate Governance and Nominating Committee.

(m) **Other Matters** – The Committee will conduct reviews and, where appropriate, recommend action by the Board on:

(i) the annual information form to be filed by the Corporation;

(ii) regular reports on outstanding litigation that could have a material effect on the Corporation;

(iii) an annual certificate of the CEO attesting that senior management of the Corporation have received and agreed to be bound by the Corporation’s Code of Business Conduct and as to compliance with the Code;

(iv) an annual report on officers’ expenses;

(v) an annual report on consulting and legal fees paid by the Corporation; and

(vi) an annual report on the Corporation’s insurance coverage and costs.