

FraserPapers

FRASER PAPERS INC.

ANNUAL INFORMATION FORM

March 22, 2005

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GLOSSARY

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

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

Coated paper: paper coated with clay and treated to impart a smooth glossy surface

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 which allow those companies to harvest trees on the licensed land

Deinked pulp: pulp made by processing recycled paper to remove ink and other contaminants

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 land: 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

Hectare: 2.471 acres

Kraft or sulphate 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

m3: cubic meter or 35.315 cubic feet

Mfbm (MMfbm): thousand (million) feet 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

Sludge: solid waste material produced in mill effluent treatment systems disposed of by burning or landfilling

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

Technical specialty papers: uncoated freesheet papers which require a high degree of technical expertise to produce and are manufactured to customer specifications

Thermal base paper: paper coated with a heat-sensitive material that changes colour when heat is applied in a thermal printer

Tonne: metric ton 1,000 kilograms or 2,204 pounds

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

Wood pulp: wood fibres produced from solid wood or wood chips for use in the production of paper, paperboard and other products

DOCUMENTS INCORPORATED BY REFERENCE

The following documents filed with various securities commissions or similar authorities in Canada, are specifically incorporated by reference and form an integral part of this Annual Information Form:

- Part III, “The Arrangement”, Exhibit “C”, “Interim Order”, Exhibit “D”, “Notice of Application” and Exhibit “E”, “Arrangement Agreement and Plan of Arrangement”, (Collectively, the “Arrangement Description”), contained in the Notice of Annual Meeting of Shareholders, Notice of Application and Management Proxy Circular with Respect to an Arrangement Involving Nexfor Inc. (the “Norbord Circular”).

CORPORATE STRUCTURE

Fraser Papers Inc. is a corporation existing under the laws of Canada. Fraser Papers Inc. was established as a result of the distribution of the paper, pulp, sawmill, and timber assets of Norbord Inc. (formerly Nexfor Inc.). This distribution was effected by way of a plan of arrangement under the *Canada Business Corporations Act* (the “Arrangement”) on June 30, 2004. The registered and principal office of Fraser Papers Inc. is Suite 200, BCE 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 its consolidated subsidiaries and affiliates for periods subsequent to June 30, 2004 and the Paper and Timber segments of Norbord Inc for periods prior to June 30, 2004. “Company” or “Corporation” means Fraser Papers Inc. as a separate corporation, unless the context implies otherwise. “Norbord” means Norbord Inc. and its consolidated subsidiaries.

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

At March 22, 2005 Brascan Corporation (together with its subsidiaries, “Brascan”), a diversified Canadian based corporation, owned approximately 43% of the outstanding Common Shares of the Company.

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 Holding Inc.	Delaware	100%
Fraser Papers Limited.....	Maine	100%
Fraser Timber Limited.....	Maine	100%
Fraser N.H. LLC.....	Delaware	100%

There are no voting or non-voting securities issued by any of these companies that are not 100% owned by Fraser Papers.

FPS Canada Inc. manages the Company’s paper, pulp, sawmill and timber assets in Canada. These include:

- A pulp and paper mill in Edmundston New Brunswick;
- A market pulp mill in Thurso, Quebec;
- Sawmills in Juniper and Plaster Rock, New Brunswick; and
- Timber operations in New Brunswick.

Fraser Papers Holdings Inc. owns the Fraser Papers investments in Fraser Papers Limited and Fraser Timber Limited.

Fraser Papers Limited owns and manages Fraser Papers' pulp and paper operations in the United States. At December 31, 2004, these included paper mills in Madawaska, Maine and Park Falls, Wisconsin. The Park Falls facility was sold on February 18 as described on page 4 "Changes in the Business since 2002". In addition, Fraser Papers Limited is the sole member of Fraser N.H. LLC. Fraser N.H. LLC owns and operates a market pulp mill in Berlin, New Hampshire and a paper mill in Gorham, New Hampshire.

Fraser Timber Limited owns and manages Fraser Papers' sawmill and timber operations in the United States. These include two sawmills and timber operations in Maine.

Fraser Papers was established as a stand-alone company on June 30, 2004. As a result, comparative historical financial results may not be indicative of those that would have resulted had Fraser Papers existed as a stand-alone entity during those periods. The Norbord Circular contains audited combined financial statements of the Fraser Papers Division of Norbord.

In 2002, Fraser Papers changed its reporting currency from Canadian to United States (U.S.) currency. **All references to "\$" or "dollars" in this Annual Information Form are to U.S. dollars unless otherwise specified.**

GENERAL DEVELOPMENT OF THE BUSINESS

Fraser Papers was established as a stand-alone company on the June 30, 2004. Prior to that date, the operations of Fraser Papers constituted the Timber and Paper segments of Norbord. Details of the Arrangement are provided in the Arrangement Description contained in the Norbord Circular.

Fraser Papers' development as a public company has focused on gaining independence from Norbord and implementing its business plan.

Relationship with Norbord

Prior to the Arrangement, Norbord provided certain services to Fraser Papers. These included:

- Selling the lumber produced by Fraser Papers' sawmills and collecting the receivables related to the lumber sales;
- Substantially all financing requirements;
- Treasury functions and cash management;
- Income tax return preparation; and
- Technical research and product development.

Norbord will continue to provide treasury and taxation services for Fraser Papers through December 27, 2005 for a fee. Norbord and Fraser Papers jointly operate a research and product development facility with costs shared proportionately.

As part of the Arrangement, Fraser Papers issued a note payable to Norbord for \$83 million. The note bore interest at $\text{Libor} + 3\%$ and was repaid on September 30, 2004 at par.

Norbord has provided guarantees for certain obligations Fraser Papers. These were previously obligations of the Paper and Timber segments of Norbord. The estimated maximum potential amount of these obligations is \$84 million. Fraser Papers is in the process of removing Norbord from these obligations by purchasing assets currently under lease, posting appropriate collateral directly with creditors or substituting Fraser Papers as guarantor. Fraser Papers anticipates removing Norbord from these obligations before December 27, 2005. Until Norbord is removed from these guarantees, Norbord will have the right to perfect security over the property, plant and equipment and other assets of Fraser Papers.

Fraser Papers Business Plan

Fraser Papers' objective is to achieve a 12% return on equity over the economic cycle while providing share capital growth for our shareholders. Fraser Papers has two business segments: Paper and Timber. The Paper segment includes Fraser Papers' paper, pulp and lumber operations. The Timber segment includes the operation of Fraser Papers' freehold timber operations as well as the management of Crown licenses in New Brunswick.

The Company's business plan is designed to contribute to these objectives. Specifically, Fraser Papers will:

- Reduce the cost structure of each of the operations;
- Focus on developing new and higher margin products;
- Reposition assets to ensure optimum value to shareholders;
- Consider growth opportunities; and
- Maintain a strong balance sheet.

Fraser Papers believes that a focus on improving margins is key to increasing shareholder value. The Company tracks improvements in product mix and customer mix, volumes and cost reductions and reports quarterly to shareholders under the Margin Improvement Program ("MIP"). During 2004, Fraser Papers generated margin improvements of \$42 million relative to 2003.

Fraser Papers will continue to explore asset repositioning opportunities in an effort to ensure optimal use of capital. The Company has announced its intention to sell its pulp mill in Thurso, Quebec. In December 2004, Fraser Papers initiated a formal sales process to sell its approximately 237,000 acres of freehold timberlands in Maine. Fraser Papers expects to complete the sale in the second quarter of 2005. Additionally, the Company will explore ways to surface capital from its other timber operations.

Fraser Papers will explore growth opportunities only if they are consistent with the Company's objectives. The acquisition of the integrated specialty paper facility in New Hampshire in 2002, and aggressive product development and productivity improvement programs have contributed to this objective.

Maintaining a strong balance sheet is important in a cyclical business. Fraser Papers' conservative structure provides flexibility in considering the objectives noted above.

Changes in the Business since 2002

In March 2005, Fraser Papers completed a \$150 million offering of senior, unsecured notes. These notes mature in March 2015 and bear interest at 8.75% per annum. More detailed information is contained in the Indenture, pursuant to which the notes were issued, filed by the company and available at www.sedar.com.

In February 2005, Fraser Papers sold a production facility in Park Falls, Wisconsin, a leased distribution facility in West Chicago, Illinois and related net assets (the “Midwest operations”). Certain liabilities of the Midwest operations were retained by Fraser Papers consisting primarily of pension and post employment obligations related to past service. In addition, Fraser Papers has agreed to post a letter of credit to support the purchaser’s closure obligation with respect to a landfill site.

As consideration for these net assets, Fraser Papers received a passive minority interest in the purchaser, which owns a paper mill and distribution operation that produces 93,000 tons of premium coated and uncoated text and cover grades on four paper machines and 22 cast-coating lines. The agreement to sell the Midwest operations includes various representations, warranties and indemnities which are standard in any sale of assets. However, any breach of any warranty or claim under an indemnity could result in an increase or decrease in Fraser Papers’ percentage of ownership. More detailed information is contained in the Asset Purchase Agreement, pursuant to which the Midwest operations were sold, filed by the company and available at www.sedar.com.

On September 30, 2004, the Company borrowed \$83 million from Brascan under a revolving credit facility. The proceeds were used to pay off a note owing to Norbord. Drawings under this facility were repaid in full from a portion of the proceeds of the \$150 million of senior unsecured notes that were issued in March 2005. This facility was cancelled on March 17, 2005.

On June 30, 2004, the Company secured a two-year committed revolving credit facility of \$50 million which bears interest at Libor + 2%. Borrowings under the facility are secured by a fixed first charge against accounts receivable and inventory.

In 2003, Fraser Papers sold its freehold timber in Quebec for total proceeds of \$9 million.

During 2003 and 2004, Fraser Papers announced restructuring at its pulp operations in Thurso, Quebec, its paper complex in Edmundston, New Brunswick and Madawaska Maine and its sales office in Stamford, Connecticut. The reorganizations included retraining and a work force reduction of approximately 500 people or 12% of the Fraser Papers work force. The reorganization resulted in a charge of \$26 million in 2003 and \$7 million in 2004.

In October, 2003, Fraser Papers entered into an arrangement to manage the assets of Katahdin Paper Company LLC (“Katahdin”). Under the arrangement, Fraser Papers receives a management fee equal to a percentage of sales. In, addition, Fraser Papers purchased preferred units in the operations of Katahdin, which are convertible into common equity units of Katahdin at a pre-determined price. Katahdin is a major producer of groundwood papers in Maine owned by Brascan. Katahdin has the capacity to produce 270,000 tons of directory paper and 185,000 tons of SC-A paper annually.

In May 2002, Fraser Papers acquired pulp, paper and related assets in Berlin and Gorham New Hampshire. The assets were acquired for a nominal amount and included a paper mill, a pulp mill and a landfill site. These mills had not been in operation since August 2001. The paper

mill started up in June 2002. The pulp mill commenced operations in April 2003. The landfill site was sold to third parties in December 2002 for proceeds of \$10 million.

DESCRIPTION OF THE BUSINESS

Fraser Papers is a specialty paper company with integrated lumber and timberland operations. Operating six paper and pulp mills, four sawmills and managing 2.3 million acres of timberlands in New Brunswick, Maine, New Hampshire and Wisconsin, Fraser Papers believes that it is one of North America's largest integrated producers of specialty paper products. Fraser Papers has been in operation since the late 1800's and employed approximately 3,750 people in the United States and Canada at December 31, 2004.

Fraser Papers' business is comprised of two segments, Paper and Timber.

Paper Segment

Principal Products

The principal products in the Paper segment are paper, pulp and lumber.

Our paper products are broadly grouped into five categories, technical specialty papers, fine printing & writing papers, groundwood papers, towel and paperboard.

Technical specialty papers require a high degree of technical expertise and are made to customer specifications. There is typically a lengthy process of developing and qualifying a grade for a particular customer. Once products are developed, however, customers tend to value supply continuity and technical support, which makes them reluctant to switch to competitive suppliers. Technical specialty papers are generally sold to converters who will produce a value added sheet through various processes (such as coating or printing) based on end customer specifications. Examples include, pet food bags, lottery tickets, point of sale register tapes, labels and popcorn bags.

Fine printing & writing papers include a broad array of grades such as commercial printing, lightweight opaques, book papers and text and cover. These grades can be produced in various colours, with different basis weights and finishes. These 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. Text and cover papers are used for annual reports, high-end promotional materials, business stationery and greeting cards. Commercial printing papers are used for manuals, direct mail inserts and brochures. Light weight opaque papers are used for bibles, financial printing and pharmaceutical inserts. Book papers are used for novels and tradebooks.

Groundwood papers include coated and uncoated grades and are generally used in mass circulation publications such as magazines, catalogues, directories, phone books and advertising inserts. Groundwood papers are generally sold to printers or publishers or through paper merchants. Demand for groundwood papers tends to be dependent on print advertising spending.

Towel is primarily bleached and unbleached paper towel for away from home applications and is sold to converters through an agent. Paperboard is used in cardboard boxes and is sold directly to converters and end users in Canada and the United States.

Total paper sales represented \$700 million in 2004, up from \$631 million in 2003.

The United States is the largest market for Fraser Papers' products, accounting for about 95% of paper sales in 2004. Fraser Papers has sales offices in all major markets in the United States. Paper markets in North America are highly competitive. The markets which Fraser Papers service are generally supplied by a number of competitors who compete with Fraser Papers on the basis of, among other things, selling price, customer service and product quality. Fraser Papers also competes with paper producers outside of North America.

Market pulp is purchased by paper producers who lack sufficient internal supply or require pulp of different qualities to supplement their own 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. Fraser Papers produces northern bleached hardwood kraft pulp for sale on the open market. The hardwood pulp produced by these mills is sold in North America, Europe and Asia either directly to customers or through sales agents. In 2004, total pulp sales amounted to \$133 million (2003-\$130 million), of which, \$103 million (2003-\$104 million) was sold as market pulp to third parties.

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, the United States, Japan and China.

Fraser Papers produces softwood dimension lumber used in new building construction and repair and renovation. The market for lumber is characterized by intense competition between producers in all major supply regions. Competition is based on price, product quality and service. Fraser Papers competes against a large number of North American producers and, to a lesser extent, foreign producers. Demand is cyclical based on home building activity and prices can fluctuate widely. Lumber is sold directly to home builders, lumber yards and wholesalers. In 2004, lumber sales amounted to \$149 million, up from \$102 million in 2003.

Wood chips are an important by-product of the lumber production process and are purchased by paper and pulp mills. Fraser Papers consumes substantially all of the chips generated at its sawmills.

Principal Plants

The locations of Fraser Papers' mills producing paper, pulp and lumber, their approximate annual capacity at December 31, 2004, together with their annual production in each of the last two years, are as follows:

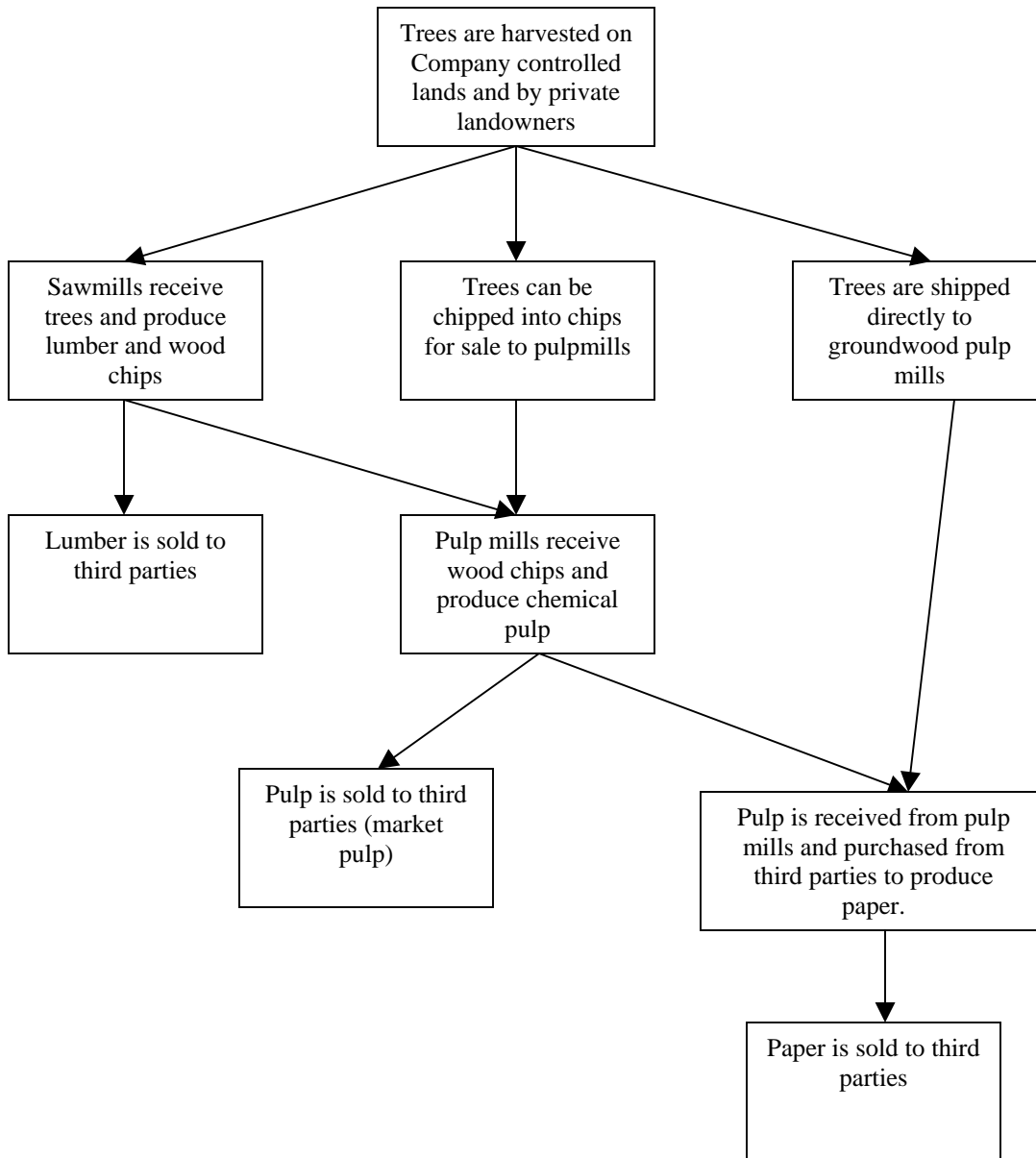
	Annual Capacity December 31, 2004	Production	
		2004	2003
Fine Printing & Writing and Technical Specialties (000 tons) ⁽³⁾			
Gorham, New Hampshire ⁽¹⁾	160	140	117
Madawaska, Maine	280	292	259
	440	432	376
Groundwood (000 tons)			
Madawaska, Maine	195	187	192
Paperboard (000 tons)			
Edmundston, New Brunswick	60	58	57
Towel (000 tons)			
Gorham, New Hampshire ⁽¹⁾	40	37	32
Total Paper	735	714	657
Pulp (000 tonnes)			
Berlin, New Hampshire ⁽¹⁾⁽²⁾	110	133	85
Thurso, Quebec	245	205	243
Total Market Pulp	355	338	328
Lumber (MMfbm)			
Ashland, Maine	60	72	63
Juniper, New Brunswick	160	118	116
Masardis, Maine	120	125	119
Plaster Rock, New Brunswick	120	126	117
Total Lumber	460	441	415

(1) Mill acquired in May 2002.

(2) Mill commenced operation in April, 2003. Annual capacity represents market pulp only.

(3) Park Falls, Wisconsin was sold in February 2005. Its capacity and production are not included.

Below is an overview of the flow of goods in the production process:



Edmundston and Madawaska (“East Papers”)

Our largest paper manufacturing facility is an integrated complex which straddles the 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 mill in slurry form. The Edmundston mill produces no market pulp, but does produce paperboard which is made from 100% recycled materials. The Madawaska mill is a flexible production facility capable of producing a wide variety of technical specialty, fine printing & writing papers and groundwood papers on eight paper machines.

The Edmundston-Madawaska complex is focused on technical specialty grades and ultra lightweight fine printing & writing grades that take advantage of the specific fibre qualities of

sulphite pulp, the technical attributes of our paper machines and our papermaking expertise. The complex has less of an advantage in the groundwood sector where many of its competitors operate larger and lower cost machines. As a result, we focus on higher value groundwood sales and do not focus on commodity grades such as newsprint.

In 2004, approximately 62% of the chips required by the Edmundston mill to produce bleached sulphite pulp were supplied from our sawmills and 38% were supplied from independent sawmillers. The logs used in the production of groundwood pulp are received from our freehold timberlands or our Crown licensed lands in New Brunswick, or purchased from private landowners.

The Madawaska mill receives approximately 75% of its pulp from Edmundston, 15% from Berlin or Thurso and the remainder is purchased from third parties as softwood, recycled or BCTMP market pulp purchases. The Edmundston mill owns and operates a 45 megawatt cogeneration facility which uses biomass as its fuel source and has a total internal generation capacity of 60 megawatts. The internal facilities produce 59% of the energy required by the East Papers complex with the remainder purchased from the New Brunswick provincial grid.

Berlin and Gorham

We purchased the integrated paper and pulp complex in Berlin and Gorham, New Hampshire in May 2002. These mills had been idle since August 2001. The Gorham paper mill restarted operations in June 2002 and the Berlin pulp mill was restarted in April 2003 producing northern bleached hardwood kraft pulp. Approximately 40% of the pulp production is transferred to the paper mill in Gorham in slurry form. The remaining 60% is dried and transferred to our other mills or sold as market pulp. The paper mill has four paper machines that produce predominantly fine printing & writing papers and one machine producing industrial towel products. We are focused on developing technical specialty grades to improve the product mix at Gorham. Certain design attributes of the paper mill such as separate water systems, dye systems, pulp integration and overall machine configuration provide the flexibility to meet the challenging technical requirements of technical specialties.

The Berlin mill receives all of its chips and logs from third party sawmills and private landowners. The Gorham paper mill receives 55% of its pulp from Berlin with the other 45% purchased as market pulp.

A landfill site that was acquired with these facilities was sold in December 2002 for proceeds of \$10 million.

Park Falls – (see also “Changes in the Business since 2002”)

The Park Falls, Wisconsin mill operates three paper machines with a capacity to produce 130,000 tons of uncoated freesheet papers, a hardwood sulphite mill and a deinking plant. The Park Falls mill produces no market pulp. Park Falls paper production is focused on fine printing & writing papers. The paper machines in Park Falls are smaller and older than machines that dominate the commodity segments of the uncoated freesheet paper sector. In some grades such as text and cover, bright coloured and commercial printing papers, this is not a major disadvantage since production runs tend to be small.

The Park Falls mill purchases all of its wood chips from an outside supplier.

Thurso

The bleached hardwood kraft pulp mill at Thurso, Quebec produces pulp for sale to affiliates and on the open market. The mill is well located to serve its major markets in the United States and Canada. Approximately 35% of the mill production in 2004 was specialty pulp for use in the manufacture of high quality specialty products such as photographic paper and decorative laminated papers.

All wood chips at Thurso are purchased from third party sawmills. Approximately 33% of the logs required to produce these chips are logged under Crown licenses with the remainder purchased from private landowners.

Sawmills

The Plaster Rock and Juniper sawmills in New Brunswick produce dimension lumber using timber from Crown licenses supplemented by open market purchases. In 2004, chips from the New Brunswick sawmills represented about 40% of the chips used by the Edmundston pulp mill. More than 50% of the timber for the sawmills was harvested from land in New Brunswick owned or licensed by us with the remainder purchased from private landowners.

The sawmills in Maine produce dimension lumber. Approximately 80% of the chips are sold to the Edmundston pulp mill with the remainder sold to third parties. The mills obtain a portion of their log requirements from our timberlands in Maine with the remainder purchased on the open market. The Maine sawmills are efficient operations, but their reliance on open market wood purchases can make them vulnerable to limitations in 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 Brascan, to manage the assets of Katahdin. Under the arrangement, we receive a management fee equal to a percentage of sales. In addition, we purchased a preferred membership interest in Katahdin, which is convertible into a common membership interest representing approximately 14% of the outstanding common interest of Katahdin. In 2005, our option to acquire 100% of KPC will expire. As a result, we will make a decision to either exercise the option or let it lapse. The acquisition of Katahdin will be subject to approval by the board members who are not related to Brascan, receipt of a fairness opinion, and any other necessary approvals.

Katahdin is a major producer of high value directory and SC-A groundwood papers in Maine. The assets that comprise Katahdin were formerly known as Great Northern Paper. From 1990 to 2000, significant investments were made by Great Northern Paper in upgrading their paper machine and pulp capabilities in order to produce high value ultra-lightweight directory papers. Brascan purchased the Katahdin assets out of bankruptcy from the Great Northern Paper estate in early 2003. Katahdin restarted two paper machines in 2003 and one paper machine in 2004.

Interest in Smart Papers

We own an approximate 40% interest, subject to adjustment, in the paper business of Smart Papers. See "General Development of the Business: Changes in the Business since 2002."

Timber Segment

Principal Products

The Timber segment comprises the ownership and management of freehold timberlands in New Brunswick and Maine. In addition, we manage a significant portion of the Crown licenses for the Government of New Brunswick.

The Timber segment is responsible for providing roundwood to support our lumber and paper operations in New Brunswick and Maine. Substantially all of the softwood fibre harvested by the Timber segment is used by the Paper segment. Hardwood fibre is sold on the open market or exchanged for softwood fibre.

Our net sales for the Timber segment were \$85 million in 2004, representing 4% of our total net sales to third parties. We expect to sell our freehold timber in Maine in the second quarter of 2005.

Forest Resources

Table of Timber Holdings

<u>Landbase</u>	<u>Acres</u>
Maine Freehold	237,000
New Brunswick Freehold.....	766,000
New Brunswick Crown License #9.....	323,000
New Brunswick Crown License #10.....	991,000

We own approximately 1.0 million acres of freehold timber in Maine and New Brunswick. We also have Crown licenses in New Brunswick on forest lands equivalent in area to approximately 1.3 million acres. Our wood harvest in 2004 was 2.7 million cubic meters. 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 ground rents, stumpage charges, reforestation 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 in an increase in the number of acres protected for wildlife habitat and conservation purposes.

We participate in the American Forest and Paper Association's Sustainable Forestry Initiative (SFI) program and all of our crown and freehold timberlands are SFI certified. To obtain certification, one must demonstrate a commitment to forest sustainability including sound management planning and the protection of wildlife habitats and water quality. In 2000, we became the first company to achieve certification to the SFI standard in our woodlands, and we were the first to apply the SFI label to our products. During 2002, our sawmills in New Brunswick and Maine became the world's first lumber manufacturers to be certified under the SFI program.

Sales and Marketing

Paper Segment

Paper

We are a leading supplier of value added technical specialty papers and high value printing & writing papers. The following table shows the approximate distribution of sales by end use of paper marketed by us from our East Papers and Berlin Gorham paper mills.

Paper Distribution of Sales by End Product (2004 Shipments)

Fine printing & writing papers	33%
Technical specialty papers.....	27%
Groundwood papers	26%
Towel and paperboard	14%

We currently produce a broad range of value added technical specialty papers and fine and groundwood printing & writing papers. We have actively grown our technical specialty business by over 60% from 112,000 tons in 1998 to 180,000 tons in 2004. We have accomplished this as a result of our strong research and development function located in Madawaska, Maine complemented by our flexible machine capabilities. In our fine printing & writing paper grades we differentiate our products in the marketplace by focusing on ultra-lightweight grades that are technically challenging to manufacture. We sell into smaller niche markets that provide for fewer competitors and that complements our machine sizes and capabilities. In our groundwood business, we produce both coated and uncoated grades and have recently developed high bright groundwood grades that complement our fine paper product offerings in the financial printing segment of the market. We sell substantially all of our paper products in the United States and Canada. In 2004, our top five customers were Kanzaki Specialty Paper Inc., XPEDX, Technicote, Unisource and Athens Paper and as a group accounted for 22% of our paper sales with our largest customer accounting for 7% of paper sales.

Our paper sales office is located in Stamford, Connecticut and we have 77 sales staff dedicated to our paper business. Our client service department, located in Madawaska, Maine, has 14 qualified and trained technicians, logistics and service personnel which complements our direct sales force.

Fine printing & writing papers

Our fine printing & writing paper business focuses on the production of lightweight opaque papers and tradebook papers. These papers are used primarily in financial printing, religious printing, reference publishing, pharmaceutical inserts, educational publishing and book publishing. Our branded products in these markets are well recognized and include FRASER SNOWLAND™, SNOWLAND OPAQUE™, SNOWBRITE™, CUSTOM PLUS™ and PHARMOPAQUE™.

The fine printing & writing paper markets are affected by general economic conditions such as the level of employment and expenditures on print advertising. Producers of all fine papers are subject to global competition.

The fine printing & writing paper business sells its products through our sales and marketing organization primarily in three channels: authorized paper merchants, paper brokers and direct sales. Merchant sales account for 90% of our customer base in the fine paper business.

Sales by the fine printing & writing paper business to its five largest customers represented approximately 25% of total sales in 2004. Although a complete loss of any one of these customers would cause a temporary decline in the business' sales volume, the decline would be partially offset by expanding sales to existing merchants, and would be further offset over a several month period with the addition of new merchants and direct sales.

Technical specialty papers

The technical specialty paper business works with our customers to develop coatings, barrier treatments, finishes, weights, security features and other performance characteristics to meet the needs of specific end use markets. This business relies on its direct sales team and marketing organizations to sell its products into seven separate market segments in North America. Such segments, broadly defined as coating base and flexible packaging paper, include papers used as components in the following applications: pet food packaging papers, technical printing base papers, thermal base papers, carbonless base papers, grease-resistant papers, stamp and chart papers, flame retardant papers, pressure sensitive labels, wet strength, thermal imaging papers and release papers. We believe our technical paper business is recognized as a leading specialty paper manufacturer and it enjoys the number one market position in the pet food packaging segment and the number two market position in the thermal base papers segment.

Several of our technical specialty products are used in markets that are directly affected by economic business cycles. Other market segments such as poly extruded base paper used in consumer applications are relatively stable. Price competition is less common in most of the segments served by the technical paper business, however, this has increased recently due to a trend of using film and other lower cost substrates instead of paper in some applications.

The technical paper business relies on a team of direct sales representatives and customer service representatives to market and sell approximately 80% of its sales volume directly to customers and converters. In 2004, only 20% of sales of the technical paper business were made through industrial distributors.

The technical paper business has over 90 customers all of which are located in North America. The distribution of sales in 2004 was 100% in North America. Customers 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.

Several of the smaller customers of the technical paper business have been acquired by larger multinational corporations with multiple manufacturing locations. These larger organizations have implemented global purchasing strategies which has given them increased leverage in price negotiations. The primary customers of our technical paper business are Nestle, Raflatec and Johnson & Johnson.

Groundwood papers

Groundwood papers are generally sold to printers and publishers or through paper merchants. In 2004, 20% of our groundwood sales were sold directly to printers or publishers and 80% was sold through paper merchants. Demand for groundwood papers tends to be dependent on print advertising spending and general economic conditions. Our groundwood papers are sold to markets in Canada, the United States and Europe. Approximately 70% of North America's uncoated groundwood capacity is located in Canada resulting in significant cost pressures for Canadian producers in weak U.S. dollar environments. The groundwood markets in the U.S. are also impacted by significant imports from Europe.

Paperboard and Towel

Substantially all of our paperboard is sold through direct sales in the New England, Ontario and Quebec markets. Paperboard is a heavier product to transport than paper and market access can be limited by freight costs and distances. Our towel is currently sold through an exclusive distribution relationship with one merchant. The towel is sold into local markets in the U.S. northeast and we believe that we could find alternative sales channels in the event that our current distribution relationship is terminated.

Market Pulp

Northern bleached hardwood kraft pulp is used by paper mills to manufacture printing & writing paper. In 2004, worldwide demand for hardwood market pulp was estimated to be 21 million tonnes of which an estimated 3 million tonnes were produced in North America. In 2003, Western Europe and Asia were net importers of approximately 17 million tonnes of wood pulp and North America and Latin America were net exporters of 16 million tonnes.

In 2004, Thurso and Berlin combined to produce about 337,000 tonnes of northern bleached hardwood kraft pulp. Of this production, about 93,000 tonnes were used by our fine paper business. The balance of the pulp mills' output of northern bleached hardwood kraft pulp was sold to paper mills in the United States, Canada and Europe via direct sales agreements and sales on the open spot market. Approximately 50% of our total market pulp sales in 2004 were supplied under contract while the other 50% was sold on the spot market. We expect to continue to use about 100,000 tonnes of northern bleached hardwood kraft pulp annually in our fine paper business.

Northern bleached hardwood kraft pulp is a commodity product whose price is subject to substantial volatility depending on production capacity and customer 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 sales staff located at our Ashland, Maine sawmill who sell the lumber primarily through a network of wholesale distributors.

Our top five lumber customers in 2004, all of which were wholesale distributors, accounted for approximately 32% of lumber sales, with our largest customer accounting for approximately 11% of lumber sales.

Timber Segment

Our Timber business sells sawlogs, pulpwood and veneer logs to local sawmills and pulp mills in Maine and New Brunswick. Approximately 50% of the volumes produced by our Timber segment each year are softwood species and 50% are hardwoods. This generally reflects the mixed species nature of timberlands in the northeast region. Our Timber business sells locally to approximately 120 third party customers via direct delivery and multiple wood merchandising yards.

Pricing for wood in the northeast is cyclical and markets can rise and fall rapidly depending on the condition of lumber markets, harvest levels, and mill start-ups or closures. Generally, wood is sold within 150 miles from where it is cut.

Transportation

Our paper, pulp and lumber operations are located adjacent to rail lines and near major highway connections to both TransCanada and Interstate routes. Our operations have the flexibility to load their products 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 both large and small competitors such as Domtar Inc., Wausau-Mosinee Paper Corporation, International Paper Company, Glatfelter, Abitibi-Consolidated, Norske Canada, Stora Enso 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. Since 2000, over 4.0 million tons of annual capacity of fine papers and over 2 million tons of capacity in groundwood papers has been permanently shut or idled in North America. During this period, very little greenfield and brownfield development has taken place 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 a technical specialty grade 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 addition, customers are often reluctant to incur the cost required to switch suppliers. In our fine printing & writing 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 in 2004 has led to a stabilization 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 whether this capacity will be 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, Scandinavia, South America, Asia and other regions and competes on a global basis. Examples of our competitors include Aracruz Cellulose, Tembec, Domtar and Stone Container. Market demand for pulp is a function of paper production in the principal markets of Western Europe, the United States, Japan 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 but is generally experiencing a downward trend as a result of significant low cost capacity expansions announced by eucalyptus pulp producers in South America. The pricing of softwood kraft pulp and hardwood kraft pulp has diverged since 2003 with the price premium for softwood over hardwood increasing from \$30 per tonne in 2003

to \$100 per tonne in 2004. Some industry observers attribute this price disconnect to the announced capacity additions for eucalyptus pulp in South America.

Lumber

Our lumber business competes with other regional lumber producers such as J.D. Irving Ltd., Tembec, Abitibi and Domtar. Competition in the lumber market is based solely on price as all lumber is sold at spot market prices in major market centers. The reference market for our lumber business is the Boston market. Lumber mills can differentiate themselves by being located closer to markets and therefore saving transportation costs. We believe that our mills are well located to deliver into northeastern markets. Some regional competitors have announced plans to consolidate the northeastern sawmill industry although to date no significant transactions have occurred.

The market for wood chips in the northeast region has become supply constrained over the past few years as the growth in demand for chips from pulp mills has outpaced the growth in chip production from regional sawmills.

Raw Materials and Energy

We believe that other than the raw materials discussed below, the raw materials that we must purchase for our operations are readily available from several sources and that the loss of a single supplier would not cause a shutdown of our manufacturing operations. 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 integrated pulp mills for our internal consumption. In addition, we purchase approximately 80,000 tonnes of softwood kraft pulp each year. We purchase softwood pulp from various suppliers and this commodity product is widely available on the open market. Other significant raw material inputs include dyes, fillers and chemicals. We purchase these products from various suppliers on both short-term and long-term contracts.

Certain specialty latex grades are used by the technical paper business, which we source with long-term contracts. An interruption in supply of certain latex grades to our technical paper business could disrupt and eventually cause a shutdown of production of certain technical paper grades. We mitigate this risk through the use of multiple supply sources.

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 mills. At our Thurso pulp mill in Quebec, 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 wood marketing boards and private woodlot owners. Our Berlin, New Hampshire mill purchases 100% of its log and chip requirements on the open market. While we believe there is adequate log and chip supply for these mills, the costs of logs and chips have increased in recent years as suppliers often have more than one potential buyer for their wood and are able to raise prices in the market.

Our pulp mills also purchase chemicals and energy. The chemicals consist primarily of sodium chlorate, caustic and various enzymes and these products can generally be obtained from a number of suppliers. The Thurso pulp mill purchases power from Hydro Quebec and the Berlin mill purchases power from an affiliate of Brascan.

Lumber

Softwood sawlogs of an acceptable size and quality are the critical raw material for our sawmills. In aggregate, our sawmills in Maine and New Brunswick obtain 40% of their sawlog requirements from our freehold and Crown lands in Maine and New Brunswick. The remaining 60% is purchased on the open market and our sawmills must compete with other regional sawmills for access to this fibre.

Backlog and Seasonality

Paper

The technical specialty papers business has experienced a steady quarter to quarter shipments 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 technical specialty paper business is subject to seasonal peaks for several of its products, such as the larger volume grades of release liner, packaging and various base stocks, used primarily in the downstream finished goods manufacturing process. To assure timely shipments during these seasonal peaks, the technical specialty paper business holds approximately 9% of its annual shipments in inventory. The technical specialty paper business also manages these peaks with sales on consignment representing about 3% of its annual sales. Orders are typically shipped within two to four weeks of receipt of the order however, the technical specialty paper business periodically experiences periods where order entry levels surge and backlog increases substantially such as in 2004, when backlogs reached eight weeks in the first quarter. Raw materials are purchased and manufacturing schedules are planned based on customer forecasts, current market conditions and individual orders for custom products.

The fine and groundwood printing & writing paper businesses have historically experienced a steady flow of orders with weakness in the fourth 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 7 to 10 day shutdowns each year for major maintenance, typically in either May or September, thereby reducing pulp shipments in the second and third quarters. 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.

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 research and 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 technical paper business has continually invested in product research and development with \$5 million being spent in 2004.

We also currently maintain a research and development laboratory in St. Laurent, Quebec. This facility is shared with Norbord.

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. Except for certain immaterial matters which we have rectified or will rectify, we are not currently named as a party in any judicial or administrative proceeding relating to environmental, health and safety matters.

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. However, 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.

From 1998 to 2004, we incurred significant capital expenditures necessary to meet legal requirements and otherwise relating to the protection of the environment at our facilities in the United States and Canada. We have no significant planned capital expenditures relating to environmental, health and safety matters for 2005 and 2006. In 2007, we anticipate spending between \$3 million and \$10 million to bring our Berlin-Gorham pulp and paper mill into full compliance with current emissions legislation within the time periods permitted by such legislation.

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 40,000 measurements of air and effluent emissions were performed during 2004. An overall

compliance rate of 99.97% was achieved by our pulp and paper operations and 100% by our lumber operations. Our continued focus on excellence in health and safety led to an improvement of 25% in 2004 compared to 2003 as our OSHA Recordable Rate was reduced from 3.24 in 2003 to 2.42 in 2004.

In 2002, the government of Canada ratified the Kyoto Accord regarding greenhouse gas emissions. The Protocol came into effect in February 2005. The United States government has chosen not to ratify the Accord, but rather to determine its own greenhouse gas management policy. Based on available information, we do not anticipate any material capital investments will be necessary to comply with the Canadian and U.S. requirements currently contemplated to apply to our mills.

Human Resources

At December 31, 2004, Fraser Papers employed approximately 3,200 people at manufacturing facilities in the United States and Canada, exclusive of employees at the Park Falls operations. Approximately 70% of these employees are represented by labour unions.

The Communication, Energy and Paperworkers Union ("CEP") represents most workers at the Edmundston and Thurso mills and the woodlands in New Brunswick. The Paper, Allied-Industrial, Chemical and Energy Workers International ("PACE") represents workers at Madawaska, Berlin and Gorham, and Park Falls. The sawmill employees at Plaster Rock are represented by the United Brotherhood of Carpenters and Joiners of America.

Negotiations were completed in July 2004 with PACE resulting in a two year extension of the Park Falls collective agreement. The agreement provides for wages and benefits to be frozen for the two year period. A signing bonus of US\$500 per employee was paid upon ratification.

In September 2004, the employees of the Thurso pulp mill agreed to amend the language of the collective agreement in order to proceed with the reduction of 46 permanent unionized positions. An agreement was also reached to extend the present collective agreement, which expired November 30, 2004 to June 30, 2005 with no increase in wages or benefits.

The collective agreement with the CEP in Edmundston expired June 30, 2004. The Company initiated negotiations in September and is currently using a provincially appointed conciliator to facilitate an agreement.

In December 2003, the employees of the Madawaska paper mill in Maine ratified a six year agreement, which will expire in 2009.

Three collective agreements covering approximately 1,000 employees are scheduled for renewal in 2005 at mills in Plaster Rock, New Brunswick, Thurso, Quebec, and the New Brunswick woodlands operations.

Risks of the Business

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.

Many of the products we produce are commodities that are widely available from other producers. Even our products that are not commodities, such as our technical 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 have little influence over the timing and extent of price changes.

Demand for our products is correlated with global economic conditions. In periods of economic weakness, reduced spending by consumers and businesses results in decreased demand for our products, resulting in lower product prices and possible 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 many factors 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 manufacturing and timberland 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 and, for many of our products, European, Asian and South American producers. Many of our competitors have greater financial resources than we do and many of the mills operated by our competitors are lower cost facilities than the mills we operate.

Our competitive position is influenced by a large number of factors including:

- the availability, quality and cost of fibre and labour;
- the cost of energy;
- our ability to reduce manufacturing costs by achieving high plant efficiencies and production rates;
- our ability to attract and maintain long-term customer relationships;
- the quality of our products and customer service; and
- foreign currency fluctuations.

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 would 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 45% of our timber requirements, including timber used in exchange for our fibre requirements, has been sourced through timber supply and forest management agreements in Canada and sustainable Crown licenses with Canadian provincial governmental authorities held directly by us. These agreements are granted for periods of up to 25 years. Our current licenses expire in 2027 and may be extended for a further five years in 2007. The availability of, and price for, wood fibre from this timber supply is subject to change. Crown licenses include provisions for ground rents and stumpage charges 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.

We currently obtain approximately 55% of our wood fibre requirements 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. Our dependence on external sources of wood fibre could increase materially in the future as we implement our strategy to dispose of our freehold timberlands. A lack of access to an internal supply of timber could also limit our flexibility in responding to shortages in wood fibre supply resulting in higher operating costs than our competitors that own timberlands.

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 our internal supply thereby forcing us to fulfill our fibre requirements through third parties.

Environmental litigation, regulatory developments and aboriginal land claims may have an adverse impact on our timber supply 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. In February 2002, the Cree Nation in Northern Quebec reached an agreement with the Quebec government regarding natural resource management and allocation in the James Bay area covered by the James Bay and Northern Quebec Agreement, a land claims agreement concluded in 1975, notably between the governments of Canada, Quebec and the James Bay Crees. Most of the changes to the *Forest Act* and the regulations thereunder resulting from this agreement are now known. However, their impact cannot be fully measured until the Quebec Ministère des Ressources Naturelles et des Parcs approves or modifies the five year forest management plans submitted in December 2003 by Crown license holders such as Fraser Papers. The 2002 agreement and the forest management plan will affect the timber allocations and harvesting costs for our operations in Quebec. Additionally, any material reductions in land available for harvest as a result of current or future changes to the *Forest Act* or any of its regulations could have an adverse impact on the cost of fibre in the regions where we operate.

Reductions in the timber 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, significant capital and operating expenditures in order to maintain compliance with these laws and regulations. Future events such as changes in environmental laws and regulations, increasingly strict enforcement 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, the ratification of the Kyoto Protocol by Canada may result in lower limits for the emission of carbon dioxide and other greenhouse gases, which would 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.

The substantial majority 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, natural gas and fuel oil, the prices of which have been volatile in recent years. We purchase natural gas and fuel oil from various suppliers at market prices. From time to time, we will enter into fixed price purchase agreements directly with suppliers to lock in prices for a period of time. 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 80,000 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 is likely to reduce our operating margins as we are typically unable 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.

Duties imposed by the United States on Canadian softwood lumber products have had, and until such duties are removed, will continue to have a negative effect on our net revenue and profitability.

We have participated in all administrative reviews of the anti-dumping orders conducted by the United States Department of Commerce (“USDOC”) as a result of the final determination of the United States International Trade Commission (“USITC”) that the softwood lumber industry in the United States is threatened with material injury by reason of imports from Canada of softwood lumber found to be subsidized and sold in the United States at less than fair value. During the May 22, 2002 to December 15, 2004 period, the antidumping cash deposit rate applied to exports of softwood lumber sold in the United States was 8.4%. Effective January 24, 2005, the antidumping cash deposit rate for softwood lumber shipments to the United States is 3.78% based on the results of the First Administrative Review. This cash deposit requirement will remain in effect until publication of the final results for the next administrative review. Antidumping duties were assessed on shipments during the First Administrative Review period of May 22, 2002 to April 30, 2003 at the amended assessment rate of 4.78%.

Canada is challenging the determinations of the USDOC and USITC before the World Trade Organization (“WTO”), North American Free Trade Agreement and the United States Court of International Trade. Attempts to negotiate a settlement to the current trade dispute are ongoing, but the outcome of these proposals and their impact on the duties is unknown. Any ruling that would cause the duties to continue at their current or higher levels or result in a restriction on shipments by Canadian producers into the U.S. could have a material adverse impact on the profitability of our sawmills.

The Government of Canada is currently considering the imposition of a surtax on certain U.S.-origin goods imported into Canada in retaliation against the United States for its failure to implement the rulings of the WTO concerning the *Continued Dumping and Subsidy Offset Act* of 2000. At this time Canada has not introduced retaliatory measures but the imposition of a surtax on forest products could adversely affect the cost and sale of such products 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 & writing papers. U.S. uncoated freesheet demand declined for the four consecutive years through 2003 and was substantially unchanged in 2004, 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 technical specialty 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 the southern hemisphere. 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 sawmills, 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 losses of standing timber from any causes, including fire and insurance against certain environmental risks 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 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 uneconomic. 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 dispute between Canadian and U.S. softwood lumber producers. During such temporary shutdowns, we must continue to expend capital to maintain the mill and equipment. We may also incur significant labour costs as a result of a temporary shutdown if we are required to give employees notice prior to any layoff or to pay severance for any extended layoff. Furthermore, temporary shutdowns may adversely affect our future access to skilled labour, as employees who are laid off may seek employment elsewhere. Given the costs involved in a temporary shutdown of our operations, we may instead choose to continue to operate those operations at a loss, which could have a material adverse effect on our financial position and results of operations.

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 of December 31, 2004, we employed approximately 3,750 people at manufacturing facilities in the United States and Canada. Approximately 70% of these employees are represented by labour unions. Collective agreements covering approximately 300 employees at the paper mill in Wisconsin was renewed in 2004. Collective agreements covering approximately 975 employees at two pulp mills, one sawmill and our New Brunswick woodlands operations will be renewed in 2005. We may not be able to resolve these 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 Fraser Papers maintains its 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.

We are subject to indemnification obligations in connection with our Spin-Off from Norbord.

In connection with our Spin-Off from Norbord on June 27, 2004, 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 Spin-Off, 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 Spin-Off, as well as any loss which Norbord may incur from certain claims arising prior to the completion of the Spin-Off 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 of December 31, 2004, we estimate that our pension plan's assets were \$390 million while our accrued benefit obligations were \$498 million, yielding an unfunded liability of \$108 million. Our policy is to fund in accordance with all applicable laws and regulations. If our assumptions do not materialize as expected, 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 indenture governing our outstanding notes contains covenants that, among other things, limit our ability to:

- pay dividends and or make distributions or redeem or repurchase stock;
- make certain investments;
- incur additional indebtedness;
- create liens;
- create dividend or other payment restrictions affecting restricted subsidiaries;
- merge, consolidate, amalgamate or sell all or substantially all of our assets to another person;
- enter into transactions with affiliates;
- enter into sale and leaseback transactions;
- issue or sell stock of subsidiaries; and
- transfer or sell assets.

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

- grant further encumbrances;
- incur additional indebtedness;
- amalgamate or pursue other reorganizations;
- provide financial assistance in the form of guarantees or otherwise to third parties;
- make certain property acquisition and dispositions; 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 will 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 Fraser Papers' annual report for 2004.

DIVIDENDS

The Company was established as a separate publicly traded company on June 30, 2004 and has not paid any dividends. There are certain covenants under our borrowing agreements which restrict our ability to pay a dividend. Dividends on Common Shares are declared solely at the discretion of the Board of Directors.

CAPITAL STRUCTURE

As at December 31, 2004 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.

Issued and outstanding capital consisted of 30,111,976 Common Shares.

DEBT RATINGS

In March 2005, the Company obtained credit ratings in conjunction with the issuance of \$150 million of senior, unsecured notes. The notes have a rating of B from Standard and Poor's and B3 from Moody's Investor Services. All agencies rank the Company's outlook as stable.

Ratings are intended to provide investors with an independent measure of credit quality of any issue of securities. The ratings accorded to debt securities or preferred shares by the rating agencies are not recommendations to purchase, hold or sell the securities inasmuch as such ratings do not comment as to market price or suitability for a particular investor. No assurance can be given that any rating will remain in effect for any given period of time or that any rating will not be revised or withdrawn entirely by a rating agency in the future if in its judgment circumstances so warrant, and if any such rating is so revised or withdrawn, Fraser Papers is under no obligation to update this annual information form.

Credit ratings are on a long-term rating scale that ranges from AAA to C (in the case of Moody's) and AAA to D (in the case of S&P), which represents the range from highest to lowest quality of such securities rates.

According to the Moody's rating system, debt securities rated B are considered speculative and subject to high credit risk. Moody's applies numerical modifiers 1, 2 and 3 in each generic rating classification from AA through CCC in its corporate bond rating system. The modifier 1 indicates that the issue ranks in the higher end of its generic rating category, the modifier 2 indicates a mid-range ranking and the modifier 3 indicates that the issue ranks in the lower end of its generic rating category.

According to the S&P rating system, debt securities rated B exhibit significant speculative characteristics. Companies issuing these securities have the capacity to meet the financial commitment on the obligation; however, they face major ongoing uncertainties which could lead to the Company's inadequate capacity to meet their financial commitment on the obligation. The ratings from AA to CCC may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the major rating categories.

Further information on the capital resources of the Company are provided in the 2004 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 July 5 through December 31, 2004, the Company's Common Shares traded in a range of between CAD\$13.57 and CAD\$19.50 per share, ending the year at CAD\$15.56. Average daily volume traded during the year was 78,860 shares. The high and low prices and average daily trading volume for each month is summarized below.

Month	High (CAD \$)	Low (CAD \$)	Volume (Shares)
July	\$ 19.50	\$ 16.50	226,280
August	\$ 19.00	\$ 16.01	77,301
September	\$ 17.10	\$ 15.63	61,053
October	\$ 16.90	\$ 14.00	25,318
November	\$ 15.38	\$ 13.57	22,286
December	\$ 16.85	\$ 15.01	68,087
Full Year	\$ 19.50	\$ 13.57	78,860 per month

DIRECTORS AND OFFICERS

Directors

The Directors of the Company are set out below. They hold office until the next annual meeting of shareholders or until their successors are elected or approved. Fraser Papers' Board does not have an executive committee. Members of the Board's committees are noted.

Name and Municipality of Residence	Principal occupation	Director since
RORKE B. BRYAN Toronto, Ontario	Dean, Faculty of Forestry and Professor of Environmental Sciences, University of Toronto.	Director-elect
JACK L. COCKWELL ⁽²⁾ Toronto, Ontario	Group Chairman, Brascan Corporation (asset management) since February 2002; President and Chief Executive Officer of Brascan prior thereto.	2004
DIAN COHEN, C.M. ⁽¹⁾⁽⁴⁾⁽⁵⁾ Toronto, Ontario	President of DC Productions Limited (economic communications and management consulting).	2004
J. BRUCE FLATT ⁽²⁾ Toronto, Ontario	President and Chief Executive Officer of Brascan Corporation since February 2002; President and Chief Executive Officer of Brookfield Properties Corporation (real estate) prior thereto.	2004
PAUL GAGNÉ ⁽¹⁾⁽²⁾⁽⁵⁾ Montreal, Quebec	Company Director and Consultant.	2004
DOMINIC GAMMIERO Mississauga, Ontario	President and Chief Executive Officer of the Corporation since 2004; President and Chief Executive Officer of Norbord Inc. (panel products) since 1999; Chief Operating Officer of Norbord Inc. prior thereto.	2004
ROBERT J. HARDING, FCA ⁽⁴⁾⁽⁵⁾ Toronto, Ontario	Chairman of Brascan Corporation.	2004
ALDÉA LANDRY, Q.C. ⁽¹⁾⁽³⁾⁽⁴⁾ Moncton, New Brunswick	President, Landal Inc. (consulting).	2004
MARGOT NORTHEY ⁽¹⁾⁽²⁾⁽³⁾ North Saanich, British Columbia	Company Director since 2002; Dean, Queen's University School of Business prior thereto.	2004
SAM POLLOCK ⁽³⁾⁽⁵⁾ Toronto, Ontario	Managing Partner, Brascan Corporation (asset management).	2004

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

Brascan Corporation owns approximately 43% of the outstanding Common Shares of the Corporation.

Officers

Name and Municipality of Residence	Office with Company	Previous occupation
ROBERT J. HARDING, FCA Toronto, Ontario	Chairman	Chairman of Brascan Corporation.
DOMINIC GAMMIERO Mississauga, Ontario	President and Chief Executive Officer	Chief Executive Officer of Norbord Inc 1999-2004; Chief Operating Officer of Norbord Inc. prior thereto.
BERT MARTIN Madawaska, Maine	Chief Operating Officer	Executive Vice President, Paper of Norbord Inc. and President, Fraser Papers Inc.
GLEN MCMILLAN Toronto, Ontario	Senior Vice President and Chief Administrative Officer	Vice President, Controller and Corporate Secretary of Norbord Inc. 1999-2004; Assistant Controller of Norbord Inc. prior thereto.
PIERRE MCNEIL Oakville, Ontario	Senior Vice President, Human Resources.	Site Director (Cowie), Nexfor Ltd. 2002-2004; Vice President Industrial Panels, Norbord Industries Inc. prior thereto.
BEN VAUGHAN Toronto, Ontario	Senior Vice President, Finance and Corporate Development	Vice President, Merchant Banking, Brascan Financial Corporation 2002-2004; Chief Financial Officer, Cybersight (marketing) 2001; Chief Financial Officer, CANOE (media) 2000.

As of March 22, 2005, the Directors and senior officers of the Company as a group own, directly or indirectly, or exercise control or direction over 947,869 Common Shares of the Company and over none of the voting securities of any of the Company's subsidiaries.

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

AUDITORS

Ernst & Young LLP (“E&Y”) have prepared the audit report on the audited consolidated financial statements of the Company as at December 31, 2004 and 2003 and for the years then ended. 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.

MATERIAL CONTRACTS

The only material contracts entered into by Fraser Papers within the last year, other than in the ordinary course of business, are the Indenture and the Asset Purchase Agreement. See "General Development of the Business: Changes in the Business since 2002".

FORWARD-LOOKING INFORMATION

Some of the statements included or incorporated by reference in this annual information form constitute “forward-looking statements” within the meaning of securities legislation. All statements contained in this annual information form that are not clearly historical in nature are forward-looking, and the words “anticipate”, “believe”, “expect”, “estimate”, “may”, “would”, “could”, “will”, “intend”, “plan” and similar expressions are generally intended to identify forward-looking statements. These statements may represent internal projections, expectations or beliefs concerning, among other things, Fraser Papers’ future operating results or future economic performance.

The projections, estimates and beliefs contained in these forward-looking statements necessarily involve known and unknown risks and uncertainties, which may cause our actual performance and financial results in future periods to differ materially from any estimates or projections of future performance or results expressed or implied by these forward-looking statements. These risks and uncertainties include, among other things, changes in general economic conditions; Fraser Papers’ ability to develop and implement business strategies in a timely and profitable manner; changes in the supply of and demand for Fraser Papers’ products; the cyclical nature of the market for most of Fraser Papers’ products; fluctuations in foreign currency exchange rates, interest rates and product prices; the need for and amount, nature and impact of future capital expenditures, including capital expenditures occasioned by compliance with environmental and other laws; the adoption of new, or changes to existing, laws or regulations applicable to Fraser Papers’ businesses; fluctuations in the availability or cost of raw materials or energy; risks inherent in our procurement of raw materials, including changes in the availability or cost of timber and wood fibre and changes in timber supply and forest management agreements with Canadian governmental authorities; risks inherent in operating complex production facilities; competitive actions by other companies; Fraser Papers’ ability to maintain good relations with its employees; uninsurable risks inherent in the forest products business; Fraser Papers’ vulnerability to natural disasters; Fraser Papers’ exposure to potential product liability claims; and those other risks and uncertainties described under “Risk Factors” in this annual information form or described from time to time in our reports and filings with securities authorities. Accordingly, events or circumstances could cause actual results to differ materially from those estimated or projected.

ADDITIONAL INFORMATION

The Company will provide to anyone, upon request to the Chief Administrative Officer of the Company at its registered office, Suite 200, BCE Place, 181 Bay Street, Toronto, Ontario, M5J 2T3:

- (a) at any time when a preliminary short form prospectus has been filed in respect of a distribution of any securities of the Company or any securities of the Company are in the course of a distribution pursuant to a short form prospectus:
 - (i) one copy of this Annual Information Form and the pertinent pages of any document incorporated by reference,
 - (ii) one copy of the Annual Report, which includes Management's Discussion and Analysis and the Consolidated Financial Statements for the year ended December 31, 2004 with the Auditors' Report thereon,
 - (iii) one copy of any unaudited interim reports to shareholders issued subsequent to such Consolidated Financial Statements,
 - (iv) one copy of the Management Proxy Circular dated March 22, 2005, and
 - (v) one copy of any other documents that are incorporated by reference into the preliminary short form prospectus or the short form prospectus; or
- (b) at any other time, one copy of any document referred to in (i), (ii), (iii) and (iv) above, provided that the Company may require payment of a reasonable charge if the request is made by someone who is not a security holder of the Company.

The Management Proxy Circular dated March 22, 2005 contains additional information concerning the Company including Directors' and Officers' remuneration and indebtedness, principal holders of Common Shares and its stock option and share purchase plans. Additional financial information about the Company is included in Fraser Papers' Consolidated Financial Statements for the year ended December 31, 2004 and in the Company's Management's Discussion and Analysis.

Additional information about the Company and its operations can be found on Fraser Papers' web site at www.fraserpapers.com or on SEDAR at www.sedar.com

APPENDIX A

FRASER PAPERS ENVIRONMENT POLICY

Fraser Papers Inc. recognizes that our environment is fundamental to our existence, and that our businesses and the communities where we operate depend upon its health. We strive for excellence, leadership, sustainability and competitive advantage, with integrity, through continual improvement in our environmental performance and management of forest land. For Fraser Papers, sustainable development means creating economic growth while caring for society and the environment.

Fraser Papers Inc. and its operations will integrate environmental protection into their business processes and decisions. Our belief in sustainable development means we are committed to:

Full Compliance

Comply fully with all applicable environmental legislation and regulations that affect our activities.

Forest Management

Manage forests in a manner consistent with the principles of sustainable forestry, this policy and applicable legislation.

Minimization of Environmental Impact

Improve our environmental performance as the expectations of society change. We shall do this by using forest, energy and other resources with increasing efficiency, and by reducing all forms of waste.

Risk Management

Continually identify, evaluate and control the environmental risks associated with our operations. We shall have procedures in place to prevent and respond to emergencies.

Environmental Management Systems

Implement systematic environmental management that supports this policy at every operation. We shall assign appropriate human and financial resources. Every year we shall establish measurable objectives and targets for environmental management and performance improvement.

Innovation

Support pollution prevention and environmental research, and implement findings consistent with this policy.

Performance Evaluation

Evaluate the environmental performance of our operations and personnel, and recognize achievements that support this policy. We shall provide our employees with information and training for them to fully integrate this policy into their responsibilities at work.

Communication

Engage in a constructive dialogue with the communities in which we operate and other key stakeholders, taking their needs into account when we make our decisions.

Open Government Relationships

Work constructively with governments and regulators on the establishment of scientifically and economically sound requirements for our operations.

Audits

Conduct environmental audits at all our operations at a frequency appropriate to their risks.

Reports

Report regularly on our environmental performance to the management of the corporation, the Board of Directors, our shareholders, employees and the communities in which we operate.

Fraser Papers Inc. requires its operations to develop policies, systems, organizations and competencies, and to embrace an environmental commitment consistent with these principles. Fraser Papers requires all employees to take responsibility for environmental protection in their jobs.

APPENDIX B

FRASER PAPERS HEALTH AND SAFETY POLICY

We are committed to safeguarding the health and well-being of our employees, contractors and visitors by creating and maintaining a safe working environment.

Beliefs

- All injuries and occupational illnesses are preventable
- Health and safety is a top priority and an integral part of our business and decision-making
- Management is ultimately responsible for workplace health and safety
- Safe operating practices are a shared responsibility among management, employees, contractors and visitors
- Employees and contractors are accountable for their safety and that of fellow workers
- Working safely is a condition of employment
- Sharing best practices improves performance

Practices

- Design safe facilities
- Continually review and improve processes and procedures
- Identify hazards and assess risks
- Develop, implement and enforce safe work practices
- Ensure all facilities comply with applicable laws and regulations
- Provide employees with information and training to work safely
- Require employees and contractors to execute their work in accordance with legislative requirements and Fraser Papers policy
- Establish and monitor health and safety objectives
- Take action to prevent recurrence of incidents
- Implement health and safety management systems to continually improve performance
- Conduct health and safety audits
- Report health and safety performance to senior management, the Board of Directors, shareholders, employees, and the public

FraserPapers