

FraserPapers

FRASER PAPERS INC.

ANNUAL INFORMATION FORM

March 20, 2006

TABLE OF CONTENTS

	<u>Page</u>
Glossary.....	i
Corporate Structure	1
Subsidiaries	1
General Development of the Business	2
Relationship with Norbord	2
Fraser Papers Strategy	3
Changes in the Business since 2003.....	4
Description of the Business.....	6
Paper Segment.....	6
Timber Segment	12
Forest Resources	12
Sales and Marketing	13
Transportation	16
Competition.....	16
Raw Materials and Energy	17
Backlog and Seasonality	18
Research and Development.....	19
Environment, Health and Safety	19
Human Resources.....	20
Risks of the Business.....	21
Dividends	29
Capital Structure.....	29
Debt Ratings.....	30
Market for Securities.....	31
Directors and Officers	32
Directors	32
Officers.....	33
Transfer Agent and Registrar	33
Auditors.....	33
Audit Committee Information.....	34
Interest of Management and Others in Material Transactions	35
Material Contracts.....	36
Forward-Looking Information	37
Additional Information.....	37
Appendix A – Audit Committee Terms of Reference.....	38

GLOSSARY

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

Bleached chemi-thermo-mechanical pulp (BCTMP): pulp produced from wood chips using a chemi-mechanical process to break the bonds between the wood fibres. BCTMP is generally stronger than mechanical pulps and provides higher yields than chemical pulps

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

Directory Papers: lightweight groundwood papers that are used to produce printed telephone and information directory publications

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

SC-A Paper: an uncoated groundwood paper grade with similar surface characteristics to coated groundwood papers; can be used as a low cost substitute for coated groundwood papers in magazines and advertising insert applications

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 2,205 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

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 20, 2006 Brookfield Asset Management Inc. (together with its subsidiaries, "Brookfield"), a diversified Canadian based corporation, owned directly, or indirectly, approximately 46% 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 pulp and sawmill assets in Canada. These include: a pulp mill in Edmundston New Brunswick; a market pulp mill in Thurso, Quebec; and sawmills in Juniper and Plaster Rock, New Brunswick.

Fraser Papers Inc. sold its New Brunswick timberlands on January 31, 2006 as described in "Changes in the Business since 2003".

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' paper operations in Madawaska, Maine. 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 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 Management Proxy Circular of Norbord Inc. dated May 3, 2004 contains audited combined financial statements of the Fraser Papers Division of Norbord for periods prior to June 30, 2004.

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

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.

Fraser Papers' development as a public company has focused on gaining independence from Norbord and aggressively 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 provided treasury and taxation services for Fraser Papers under an agreement which expired December 27, 2005.

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 of Fraser Papers. These were previously obligations of the Paper and Timber segments of Norbord. The estimated maximum potential amount of these obligations was \$84 million as at June 30, 2004. 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. As at December 31, 2005, the maximum potential amount of these obligations had been reduced to \$13 million. 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 Strategy

Our objective is to achieve a 12% return on equity over the market cycle for our paper products while providing share capital growth for shareholders. Fraser Papers operated in two business segments during 2005: Paper and Timber. The Paper segment includes Fraser Papers' paper, pulp and lumber operations. The Timber segment included the operation of Fraser Papers' freehold timber operations as well as the management of Crown licenses in New Brunswick. The Maine timberlands operations were sold in May, 2005 while the freehold timberlands in New Brunswick were sold in January, 2006. Commencing in 2006, the Company includes the management of its Crown licenses in the Paper segment.

The Company's business strategy is designed to achieve the following objectives:

- Focus productive capacity and development efforts on paper grades where Fraser Papers can achieve competitive advantage and higher margins;
- Implementing results focused business processes and reducing the cost structure of each operation;
- Reposition assets to ensure optimum value to shareholders and enhance operating leverage and flexibility;
- Maintain an appropriate level of financial leverage considering the cyclicity of our business; and
- Consider growth opportunities which are complementary to the strategy and accretive to earnings.

Fraser Papers believes that a focus on improving product 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 2005, Fraser Papers generated margin improvements of \$15 million relative to 2004. In 2004, Fraser Papers generated margin improvements of \$42 million relative to 2003.

Fraser Papers will continue to explore asset repositioning opportunities to ensure optimal allocation of capital. During 2005, Fraser Papers completed the sale of its pulp and paper mill in Wisconsin, sold approximately 240,000 acres of freehold timberlands in Maine, sold its paperboard business in New Brunswick and, in January, 2006, sold its 765,000 acres of freehold timberlands in New Brunswick.

Fraser Papers will explore growth opportunities only if they are consistent with the Company's objectives. Acquisitions will be done selectively, and on a value basis. Aggressive product development and productivity improvement programs will continue to contribute to this objective.

Maintaining a strong balance sheet is important in a cyclical business. During March of 2005, the Company issued \$150 million of 10 year senior unsecured notes at an attractive long-term fixed interest rate of 8.75%. Fraser Papers' conservative capital structure and the increased liquidity from the issuance of senior unsecured notes provide flexibility in considering the objectives noted above.

Changes in the Business since 2003

On March 7, 2006, Fraser Papers announced a strategic decision to permanently close its pulp mill located in Berlin, New Hampshire. The strategic decision, supported by the Board, is aimed at reducing the Company's exposure to market pulp. The adjacent paper mill in Gorham, New Hampshire will operate on purchased fibre. The strategic decision will allow the Company to focus its pulp production at the Company's pulp mill in Thurso, Quebec and will result in the Company purchasing pulp for its paper mills as opposed to selling excess pulp production into the market.

The closure of the pulp mill is expected to result in severance and other costs of \$3 million. As at December 31, 2005, property, plant and equipment includes \$40 million, and other assets include \$8 million related to this operation. The Company is currently evaluating alternatives for these assets and expects to record a material, non-cash impairment charge related to these assets in the first quarter of 2006.

Subsequent to December 31, 2005, Smart Papers LLC, in which Fraser Papers holds a 40% equity interest (the "Investment"), announced the shut down of one of its manufacturing facilities. Based on the information currently available to the Company, the Company does not believe that there is an other-than-temporary decline in the value of the Investment. However, should new information become available that suggests that an other-than-temporary decline in the value of the Investment exists, there could be a material impairment to the carrying value of the Investment.

In January, 2006, the Company sold its freehold timberlands in New Brunswick to a newly formed income fund. Total proceeds consisted of \$94 million in cash plus 3,613,780 securities which are convertible into units of Acadian Timber Income Fund ("Acadian" or the "Fund"). The units in Acadian represent approximately 22% of the equity of the Fund, on a fully-diluted basis. At the time of sale, Fraser Papers entered into a 20 year fibre supply agreement under which it has the right to purchase substantially the same volumes of fibre that it historically received from the timberlands.

In October, 2005, the Company sold its paperboard business, located in Edmundston, New Brunswick for proceeds of \$5 million. The sale of the paperboard business and related restructuring resulted in a pre-tax charge to income of \$9 million, including an impairment charge on property, plant and equipment, severance, early retirement, training and non-cash pension charges. The non-cash portion of the charge was approximately \$3 million.

In May, 2005, Fraser Papers closed the sale of 240,000 acres of timberlands in Maine for net proceeds of \$78 million and a pre-tax gain of \$46 million. At the time of sale, Fraser Papers entered into a 20 year fibre supply agreement under which it has the right to purchase substantially the same volumes of fibre that it historically received from the timberlands. More detailed information is contained in the Purchase and Sale Agreement available at www.sedar.com.

During the second quarter of 2005, the Company recorded a pre-tax, non-cash impairment charge of \$40 million against the assets of the pulp mill in Thurso, Quebec. A number of economic developments indicated that the carrying amount of these assets may not be fully recoverable. As a result of the impairment review, the Company recorded a charge based on the amounts by which the carrying value of the assets exceeded their fair value.

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. The proceeds of the notes were used, in part, to repay amounts owing to Brookfield. The notes subject the Company to a number of covenants. More detailed information about these notes 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 obligations with respect to a landfill site. As consideration for these net assets, Fraser Papers received a passive minority interest in the purchaser which, at the time of the transaction, owned 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 Brookfield 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 committed revolving credit facility of \$50 million which bears interest at $\text{Libor} + 2\%$ and matures in June 2007. Borrowings under the facility are secured by a fixed first charge against accounts receivable and inventory.

During 2003 and 2004, Fraser Papers announced restructuring at its pulp operations in Thurso, Quebec, its pulp and paper complex in Edmundston, New Brunswick and Madawaska Maine and its sales office in Stamford, Connecticut. The reorganizations included a work force reduction and retraining affecting approximately 13% 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 Brookfield. Katahdin has the capacity to produce 270,000 tons of directory paper and 190,000 tons of SC-A paper annually.

DESCRIPTION OF THE BUSINESS

Fraser Papers is a specialty paper company with integrated lumber operations. During the past year, Fraser Papers sold its freehold timber operations but has the right to purchase substantially the same amount of fibre from those operations under 20 year fibre supply agreements. As at March 20, 2006, Fraser Papers operates four pulp and paper mills and four sawmills in New Brunswick, Quebec, Maine and New Hampshire. Fraser Papers has been in operation since the late 1800's and employed approximately 3,000 people in the United States and Canada at December 31, 2005.

At December 31, 2005, Fraser Papers' business was 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 and book papers. 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. 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. The Company sold its paperboard business in the fourth quarter of 2005.

Total paper sales represented \$600 million in 2005, as compared to \$700 million in 2004.

The United States is the largest market for Fraser Papers' products, accounting for about 95% of paper sales in 2005. Fraser Papers has sales representatives 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 from its Thurso and Berlin pulp mills. The hardwood pulp produced by these mills is sold in North America, Europe and Asia either directly to customers or through sales agents. In 2005, total pulp sales amounted to \$169 million (2004 - \$133 million), of which, \$137 million (2004 - \$103 million) was sold as market pulp to third parties. On March 7, 2006, we announced the permanent closure of our Berlin pulp mill.

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

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, among other things, home building activity and repair and renovation spending and prices can fluctuate widely. Lumber is sold directly to home builders, lumber yards and wholesalers. In 2005, lumber sales amounted to \$137 million, down from \$149 million in 2004.

Wood chips are an important by-product of the lumber production process and are a significant source of wood fibre for pulp mills. Fraser Papers' pulp mill in Edmundston 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, 2005, together with their annual production in each of the last two years, are as follows:

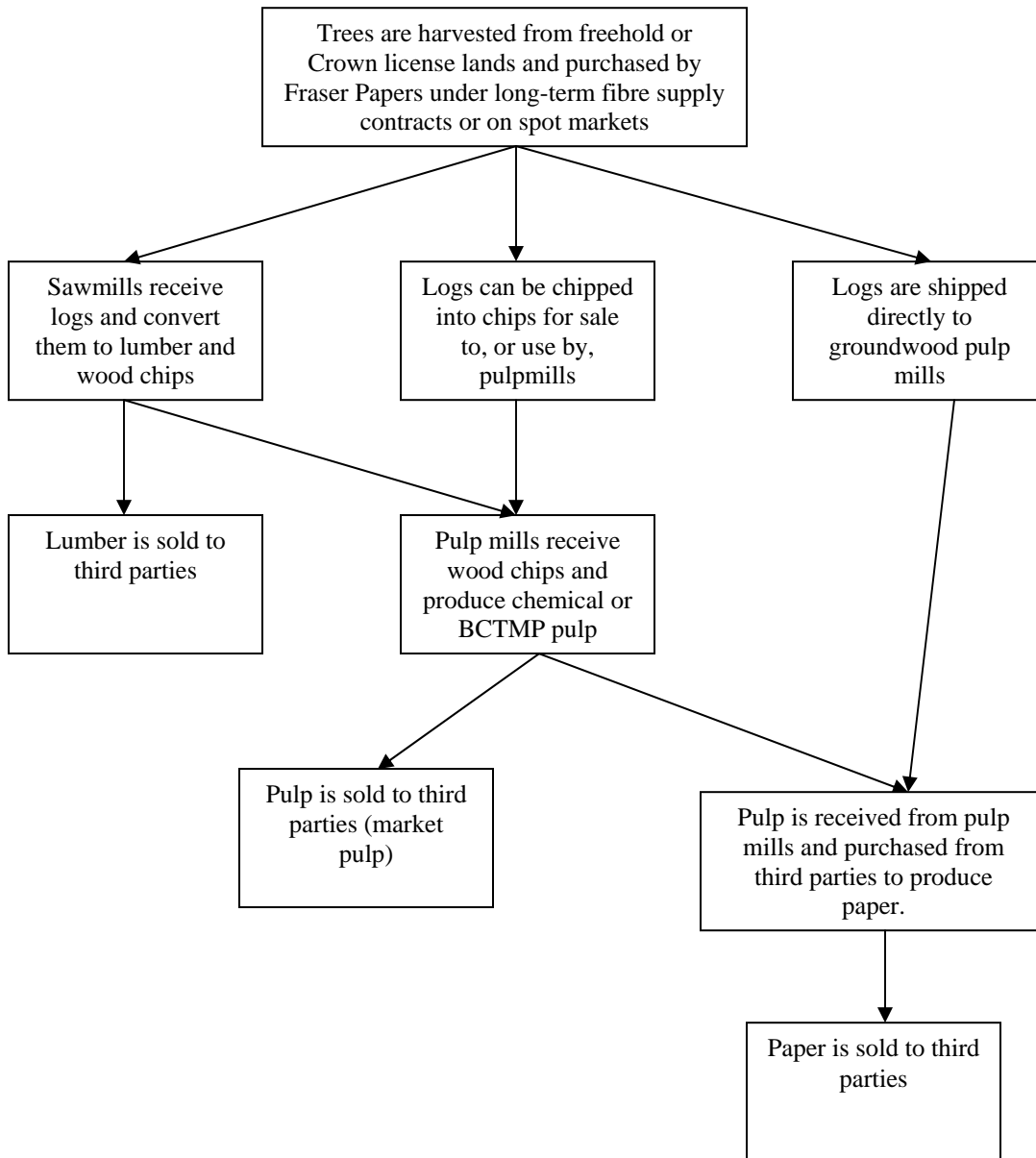
	Annual Capacity December 31, 2005	Production	
		2005	2004
Fine Printing & Writing and Technical Specialties (000 tons) ⁽¹⁾⁽²⁾			
Gorham, New Hampshire	150	146	140
Madawaska, Maine	300	296	292
	450	442	432
Groundwood Paper (000 tons)			
Madawaska, Maine	185	181	187
Towel (000 tons)			
Gorham, New Hampshire	40	38	37
Total Paper	675	661	656
Pulp (000 tonnes) ⁽³⁾			
Thurso, Quebec	245	236	205
Lumber (MMfbm)			
Ashland, Maine	80	69	72
Juniper, New Brunswick	120	105	118
Masardis, Maine	130	128	125
Plaster Rock, New Brunswick	130	111	126
Total Lumber	460	413	441

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

(2) Paperboard business was sold in October 2005. Its capacity and production are not included.

(3) On March 7, 2006, we announced that our pulp mill located in Berlin, New Hampshire would be permanently closed. Although it will continue production until May 6, 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 paper mill in slurry form. The Edmundston mill is fully integrated with the Madawaska paper mill and produces no market pulp. Until the business was sold in October 2005, paperboard made from 100% recycled materials was produced at Edmundston. 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.

East Papers 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 products and do not focus on commodity grades such as newsprint.

In 2005, approximately 59% of the chips required by the Edmundston mill to produce bleached sulphite pulp were supplied from our sawmills and 41% were supplied from independent sawmillers. The logs used in the production of groundwood pulp are received under long-term fibre supply agreements from our previously owned freehold timberlands, our Crown licensed lands in New Brunswick, and purchased from private landowners.

The Madawaska mill receives approximately 66% of its pulp from Edmundston, 16% from Berlin or Thurso and the remainder is purchased from third parties as softwood, recycled or BCTMP market pulp purchases.

The Edmundston mill 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 54% of the energy required by the East Papers complex with the remainder purchased from the New Brunswick provincial grid.

Berlin and Gorham

The Gorham 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, and overall machine configuration provide the flexibility to meet the challenging technical requirements of technical specialties papers.

The Berlin pulp mill was restarted in April 2003 to produce northern bleached hardwood kraft pulp to the Gorham paper mill and the open market. In March 2006, the company announced the permanent closure of the Berlin pulp mill citing rising costs of wood, energy and chemicals. The Thurso pulp mill and the open market will supply northern bleached hardwood kraft to the Gorham paper mill.

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 37% of the mill production in 2005 was specialty pulp for use in the manufacture of high quality paper products such as photographic paper and decorative laminated papers.

Wood is supplied to the Thurso mill in both log form and chip form with approximately 35% of requirements from logs and 65% from chips. Of the total supply, approximately 31% is provided under Crown licenses, with the remainder purchased from sawmills (for chips) or private woodlots (for logs).

Sawmills

The Plaster Rock and Juniper sawmills in New Brunswick produce dimension lumber using timber from Crown licenses supplemented by open market purchases. In 2005, 100% of the chips produced at the New Brunswick sawmills were sold to the Edmundston pulp mill and represented about 37% of all chips used by the Edmundston pulp mill. More than 42% of the timber for the sawmills was harvested from land in New Brunswick previously owned or currently licensed by us with the remainder purchased from private landowners.

The sawmills in Maine produce dimension lumber. Approximately 75% 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 under a long-term fibre supply agreement with the owners of our previously owned 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 Brookfield, 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 equity interest in Katahdin, which is convertible into a common equity interest. Our option to acquire 100% of Katahdin expired unexercised during 2005. Notwithstanding the expiry of our purchase option, we still consider that Katahdin represents an attractive acquisition for Fraser Papers due to its potential to capture strong and profitable market share in SCA and directory paper markets. As at March 20, 2006, Fraser Papers is reviewing Katahdin as a possible acquisition. The acquisition of Katahdin would be subject to approval by the board members who are not related to Brookfield, receipt of a fairness opinion, and other regulatory 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. Brookfield purchased the Katahdin assets out of bankruptcy from the Great Northern Paper estate in early 2003. Katahdin restarted two paper machines in 2003 and a third 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 2003."

Smart Papers LLC operates manufacturing and distributing facilities in Ohio, Illinois and Wisconsin. Smart Papers is an independent manufacturer and marketer of premium coated and uncoated printing papers with a broad range of applications in the graphic arts, label and packaging, and specialty converting markets. Annual production of capacity is approximately 200,000 tons and its products are distributed primarily through authorized paper merchants throughout the United States.

Subsequent to December 31, 2005, Smart Papers LLC, in which Fraser Papers holds a 40% equity interest (the "Investment"), announced the shut down of one of its manufacturing facilities. Based on the information currently available to the Company, the Company does not

believe that there is an other-than-temporary decline in the value of the Investment. However, should new information become available that suggests that an other-than-temporary decline in the value of the Investment exists, there could be a material impairment to the carrying value of the Investment.

Interest in Acadian Timber Income Fund

In January, 2006, the Company sold its freehold timberlands in New Brunswick to Acadian for total proceeds of \$94 million in cash plus 3,613,780 securities which are convertible into units of the Fund. The units in Acadian represent approximately 22% of the equity of the Fund, on a fully-diluted basis. At the time of sale, we entered into a 20 year fibre supply agreement under which we have the right to purchase substantially the same volumes of fibre that we historically received from the timberlands.

Timber Segment

Principal Products

Prior to the sale of its freehold timberlands in Maine and New Brunswick, the Timber segment comprised the ownership and management of freehold timberlands in New Brunswick and Maine as well as the management of Crown licenses for the Government of New Brunswick. The management of the Crown licenses in New Brunswick has been transferred to the Paper segment.

The Timber segment was 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 was used by the Paper segment. Hardwood fibre was sold on the open market or exchanged for softwood fibre.

Our net sales for the Timber segment were \$74 million in 2005, sharply below the \$85 million recorded in 2004. The significant reduction is due to the sale of our Maine timberlands in April, 2005. Timber sales represented 5% of our total net sales to third parties in 2005.

Forest Resources

Table of Timber Holdings

<u>Landbase</u>	<u>Acres</u>
Maine Freehold ⁽¹⁾	240,000
New Brunswick Freehold ⁽²⁾	765,000
New Brunswick Crown License #9	323,000
New Brunswick Crown License #10	990,000

- (1) Maine freehold timberlands were sold in May 2005.
- (2) New Brunswick freehold timberlands were sold in January, 2006.

We owned approximately 1.0 million acres of freehold timber in Maine and New Brunswick. In conjunction with the sale of the these lands, we entered into 20 year fibre supply agreements whereby we retained the right to purchase fibre supply substantially equal to the fibre we used from these lands when we owned them.

We have Crown licenses in New Brunswick on forest lands equivalent in area to approximately 1.3 million acres. The allowable annual cut on these Crown lands is 1.3 million cubic meters. The Company is entitled to approximately 17% (or 225,000 cubic metres) of the allowable annual cut on these Crown lands. The remaining 83% is used by sub-licensees.

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

We participated in the American Forest and Paper Association’s Sustainable Forestry Initiative (SFI) program and all of our Crown 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 (2005 Shipments)

Fine printing & writing papers	34%
Technical specialty papers.....	29%
Groundwood papers	25%
Towel and paperboard	12%

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 85% from 112,000 tons in 1998 to 207,000 tons in 2005. We have accomplished this as a result of our strong research and development department 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 have fewer competitors and that complement 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 2005, our top five customers were Kanzaki Specialty Paper Inc., Athens, Unisource, XPEDX and Central Lewmar Paper and as a group accounted for 36% of our paper sales with our largest customer accounting for 8% of paper sales.

Our paper sales office is located in Portland, Maine and we have 24 sales staff dedicated to our paper business. Our client service department, located in Madawaska, Maine, has 25 qualified and trained technicians, logistics and service personnel who complement 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™ PHARMOPAQUE™, SNOWCOTE, FRASER TRADEBOOK, GORHAM OPAQUE, and WILDCAT.

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 approximately 94% of our customer base in the fine paper business.

Sales by the fine printing & writing paper business to its five largest customers represented approximately 60% of total sales in 2005. Fraser Papers focuses on strategic customer relationships with larger consumers of its products. Although the loss of a significant customer could cause a temporary decline in the business' sales volume, the decline would be partially offset by expanding sales to existing merchants or customers, 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 polyextruded base paper used in consumer applications like sugar packets, 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 96% of its sales volume directly to customers and converters. In 2005, only 4% of sales of the technical paper business were made through industrial distributors.

The technical paper business has over 100 customers of which 92% are located 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 2005, 13% of our groundwood sales were sold directly to printers or publishers and 87% was sold through paper merchants. Groundwood papers are used for magazines and advertising inserts and, as such, 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

Prior to the sale of our paperboard business, substantially all of our paperboard was 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 into local markets in the U.S. northeast.

Market Pulp

Northern bleached hardwood kraft pulp is used by paper mills to manufacture printing & writing paper. In 2005, worldwide demand for hardwood market pulp was estimated to be 21 million tonnes of which an estimated 4.5 million tonnes were produced in North America. In 2004, Western Europe and Asia were net importers of approximately 21.5 million tonnes of wood pulp and North America and Latin America were net exporters of 17 million tonnes.

In 2005, Thurso and Berlin combined to produce about 470,000 tonnes of northern bleached hardwood kraft pulp. Of this production, about 163,000 tonnes were used by our fine paper business. The balance of the pulp mills' output was sold to third-party paper mills in the United States, Canada and Europe via direct sales agreements and sales on the open spot market. Approximately 19% of our total market pulp sales in 2005 were supplied under contract while the remainder was sold on the spot market. With the announced permanent closure of the Berlin pulp mill, capacity for northern bleached hardwood pulp production will be reduced to 245,000 tonnes annually from the Thurso pulp mill. We expect to continue to use about approximately 160,000 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 2005 accounted for approximately 41% 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 were 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 85 third party customers via direct delivery and multiple wood merchandising yards. During 2005, Fraser Papers sold its timberlands in Maine. Early, in 2006, the Company sold its timberlands in New Brunswick.

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 a short distance from where it is cut.

Transportation

Our paper, pulp and lumber operations are located adjacent to rail lines and 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 Papers, International Paper Company, Glatfelter, Abitibi-Consolidated, Catalyst Paper Corporation, 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. In the past five years, significant capacity of printing and writing papers has been permanently shut or idled in North America. During this period, very little greenfield and brownfield development has taken place 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

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 and 2005 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 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, Europe, Asia and other regions and competes on a global basis. Examples of our competitors include Aracruz Cellulose, Georgia Pacific, Domtar and Stone Container. Market demand for pulp is a function of paper production in the principal markets of Europe, the United States, Japan, Asia and Canada and suppliers compete to satisfy this demand on the basis of price, quality and service. Pricing for hardwood kraft pulp is highly cyclical but is generally experiencing a downward trend as a result of significant low cost capacity expansions announced by eucalyptus pulp producers in South America and Asia. The pricing of softwood kraft pulp and hardwood kraft pulp diverged in 2003 with the price premium for softwood over hardwood increasing from \$30 per tonne in 2003 to \$100 per tonne in 2004. In 2005, the pricing difference dropped closer to average historical levels.

Lumber

Our lumber business competes with other regional lumber producers such as J.D. Irving, Tembec, Abitibi-Consolidated and Domtar. Competition in the lumber market is based primarily on price as most 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 jeopardize or put our manufacturing operations at risk. An adequate supply of water is needed to manufacture our products. We believe that there is an adequate supply of water for this purpose at each of our manufacturing locations.

Paper

Wood pulp is the primary fibre used to produce our paper products. We are an integrated paper producer and we produce sulphite, groundwood, and northern bleached hardwood kraft pulp at our integrated pulp mills for our internal consumption. In addition, we purchase approximately 108,000 tonnes of northern bleached softwood kraft pulp each year from suppliers who have the ability to meet our specifications. Generally, softwood pulp is widely available on the open market. Other significant raw material inputs include dyes, fillers and other chemicals. We purchase these products from various suppliers on both short-term and long-term contracts.

Certain specialty latex products are used in the manufacture of technical specialty papers, which we source under long-term contracts. An interruption in supply of certain latex products 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 mill in Thurso, Quebec. At Thurso, we access 31% of our log and chip needs from our provincial cutting rights (CAAF) and 69% is purchased on the open market from local sawmills, wood marketing boards and private woodlot owners. While we believe there is adequate log and chip supply for this mill, 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 mill also purchases 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 Brookfield.

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 31% of their sawlog requirements from our previously owned freehold and Crown lands in Maine and New Brunswick under long-term fibre supply agreements. The remaining 69% 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 generally experiences 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 8% of its annual shipments in inventory. The technical specialty paper business also manages these peaks with sales on consignment

representing about 1% 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 backlogs increase for short periods of time. Raw materials are purchased and manufacturing schedules are planned based on customer forecasts, current market conditions and individual orders for custom products.

The 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 the second or third quarters of the year. Shutdowns for maintenance and capital projects are sometimes taken in other quarters, resulting in a variation in quarter to quarter pulp shipments. Customer order patterns are consistent, except for a moderate reduction in European orders in the summer. In North America, orders are generally placed one month in advance, while European orders are based on a three month rolling forecast. Asian customers' buying patterns are erratic as they often purchase significant volumes when they perceive prices to be low. They will then go a number of weeks before making any purchases.

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, at our laboratory in St. Laurent, Quebec and at our mills, with 36 new specialty products developed in 2005

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.

During 2005, the Occupational Safety and Health Administration ("OSHA") conducted investigations into a fatality at our mill in Madawaska, Maine and our accident recordkeeping

procedures. As a result of these investigations, Fraser Papers paid fines totaling \$183,500 in 2005. Appropriate steps have been taken to implement all recommendations made as a result of the investigation.

During 2004, we were charged with two violations under the Clean Air Act. We are currently contesting these charges.

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 2006. During 2005, discussions with representatives from the state of New Hampshire and the Environmental Protection Agency ("EPA") indicated that Fraser Papers has met the requirements of all phases of the Cluster Rules in the United States and that additional investment to reduce high volume, low concentration gases would not be necessary at the pulp and paper complex in Berlin and Gorham, New Hampshire.

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 35,000 measurements of air and effluent emissions were performed during 2005. An overall compliance rate of 99.97% was achieved by our pulp and paper operations and 100% by our lumber operations.

During 2005 as part of its environment health and safety audits, Fraser Papers undertook a comprehensive review of its safety practices at a number of locations. While Fraser Papers remains committed to achieving world-class safety performance, we saw a deterioration in our safety performance in 2005. Our OSHA recordable rate was 6.80 in 2005 compared to 5.15 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, 2005, Fraser Papers employed approximately 3,000 people at manufacturing facilities in the United States and Canada, including approximately 200 employees at the Timber operations which were sold subsequent to year end and approximately 250 employees at our Berlin pulp mill which will be permanently shut down in May, 2006. Approximately 69% of these employees are represented by labour unions.

The Communication, Energy and Paperworkers Union ("CEP") represents workers at the Edmundston and Thurso mills. The Paper, Allied-Chemical and Energy Workers International ("PACE") represents workers at Madawaska and Gorham. The lumber mill employees at Plaster Rock are represented by the New Brunswick Regional Council of Carpenters, Millwrights and Allied Workers.

Effective February, 2005, a new four year agreement was ratified by employees at the Plaster Rock lumber mill. The agreement with the CEP provides for wage increases of 2.5% per year in each year of the agreement.

The collective agreement with the CEP in Edmundston expired June 30, 2004. Negotiations for a new five-year agreement were completed in May, 2005. The agreement is in line with the industry pattern negotiated in 2004. The new agreement provides for wage increases totaling 11% over the term of the contract and a ten-year freeze on negotiations of pension enhancements.

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.. Negotiations are currently underway with the CEP to renew the collective agreement covering approximately 300 employees.

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

There are no collective agreements expiring in 2006.

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 may have little influence over the timing and extent of price changes.

Demand for our products is correlated to global economic conditions. Periods of economic weakness, reduced spending by consumers and businesses can result in decreased demand for our products, resulting in lower product prices and 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 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 could have a material adverse effect on our business, financial position, results of operations and cash flows.

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

Wood fibre is our principal raw material. In recent years, approximately 31% 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. The Crown licenses are granted for periods of up to 25 years. These Licenses are subject to renewal every five years which further extends their term. In New Brunswick, the current Crown Timber Licenses expire in 2027 and are up for renewal in 2007. The availability of, and price for, wood fibre from this timber supply is subject to change. Crown licenses include provisions for royalty fees (or stumpage charges) and levy fees for reforestation and silviculture that could be materially

increased through amendments to legislation or regulatory regime changes. Furthermore, the Crown licenses contain terms and conditions, which could, under limited circumstances, result in a reduction of annual allowable timber that may be harvested by us without any compensation. Additionally, these licenses can be revoked or cancelled for non-performance and there is no assurance that any offer for renewal or extension will contain acceptable terms. To the extent the availability of wood fibre from these sources is reduced, we will be required to increase our purchase of wood fibre on the open market.

Approximately 31% of our wood fibre requirements are met through long-term fibre supply arrangements or our Crown license arrangements. The remaining 69% of our wood fibre requirements are met by purchasing timber, chips and other wood residues as well as recycled materials on the open market or pursuant to short-term supply agreements in competition with other users of such wood resources. Wood fibre is a commodity, and prices have historically been cyclical due to changing levels of demand and supply. Wood fibre pricing is also subject to regional market influences, and our cost of wood fibre may increase in particular regions in which we operate due to market shifts in those regions. Our more geographically diversified competitors may not be affected by regional price volatility. Any significant increase in wood fibre prices would increase our operating costs and may materially reduce our cash flows. We may be unable to increase prices for our products in response to increased wood fibre costs due to additional factors affecting the demand or supply of these products. Our inability to increase prices for our products in response to increasing wood fibre costs may materially reduce our margins. Additionally, if one or more of our major suppliers of wood fibre stops selling to us, our financial position and operating results may suffer. A lack of access to an internal supply of timber as a result of the recent sale of our freehold timberlands, could limit our flexibility in responding to shortages in wood fibre supply resulting in higher operating costs than 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 the supply of wood available to us under long-term fibre supply agreements, thereby forcing us to fulfill our fibre requirements through other suppliers.

Environmental litigation, regulatory developments and aboriginal land claims may have an adverse impact on our timber supply 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 Cree of James Bay.

In practice, this agreement has significantly reduced timber allocations for some companies and increased operating costs on the lands covered by the agreement. In essence, no activity can take place on these lands without approval of the first nations.

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

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

Reductions in the timber 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 may require us to reduce production or invest in the installation of additional pollution control equipment.

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

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

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

We do not own or control mills that produce softwood kraft pulp and must buy our softwood kraft pulp through supply agreements or on the open market. We purchase approximately 108,000 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. Since May 22, 2002, the antidumping cash deposit rate applied to exports of softwood lumber sold in the United States has ranged from 2.1% to 11.54%. Effective December 12, 2005, the antidumping cash deposit rate for softwood lumber shipments to the United States is 2.1%. This cash deposit requirement will remain in effect until publication of the final results for the next administrative review which is expected to occur in December of 2006.

Canada is challenging the determinations of the USDOC and USITC before the World Trade Organization ("WTO"), under the North American Free Trade Agreement and before 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.

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, was substantially unchanged in 2004 and fell again in 2005, 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 Asia and Latin America. If we are unable to develop new sources of demand to effectively respond to electronic substitution and changing customer preferences, our financial position and results of operations may be adversely affected.

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

Our business is subject to the risks of operating pulp and paper mills and 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, 2005, we employed approximately 3,000 people at manufacturing facilities in the United States and Canada, approximately 200 of which were associated with the New Brunswick timberlands which we sold, and approximately 250 are associated with our Berlin pulp mill. Approximately 69% of these employees are represented by labour unions. Collective agreements covering approximately 475 employees at one pulp mill and one sawmill expired in 2005. At December 31, 2005, all outstanding labour agreements were ratified with the exception of one pulp mill agreement covering approximately 300 employees. We may not be able to resolve outstanding 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 affect 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 30, 2004 (the "Spin-Off"), 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, 2005, we estimate that our pension plans' assets were \$415 million while our accrued benefit obligations were \$590 million, yielding an unfunded liability of \$175 million. Our policy is to fund in accordance with all applicable laws and regulations. If actual results differ from our assumptions, cash expenditures and cash costs that we incur in respect of our pension funding requirements could be materially higher, which may have a material adverse effect on our cash flows and liquidity. Moreover, regulatory changes could increase our obligations to provide these or additional benefits.

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

The 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 or create liens;
- create dividend or other payment restrictions affecting restricted subsidiaries;

- transfer or sell assets or 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; and
- issue or sell stock of subsidiaries.

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

- incur additional indebtedness or grant further encumbrances;
- make certain property acquisition and dispositions or amalgamate or pursue other reorganizations;
- provide financial assistance in the form of guarantees or otherwise to third parties; and
- pay dividends, issue securities and make investments.

Complying with these covenants and restrictions, as well as any restrictions that may be contained in any future debt instruments and other transaction documents, may limit our ability to execute certain transactions. Our ability to comply with these covenants will depend on our future performance, which may be affected by events beyond our control. Our failure to comply with any of these covenants or restrictions when they apply 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 2005.

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, 2005 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.

At December 31, 2005, issued and outstanding capital consisted of 29,509,876 Common Shares. There were no other classes of shares outstanding in 2005 or 2004.

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. Both agencies rank the Company's outlook as negative.

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 2005 Management's Discussion and Analysis.

MARKET FOR SECURITIES

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

From January 1, 2005 through December 31, 2005, the Company's Common Shares traded in a range of between CAD\$9.02 and CAD\$16.00 per share, ending the year at CAD\$10.01. Average daily volume traded during the year was 44,560 shares. The high and low prices and average daily trading volume for each month is summarized below.

Month	High (CAD \$)	Low (CAD \$)	Volume (Shares)
January	\$ 16.00	\$ 14.10	43,236
February	\$ 15.04	\$ 14.50	63,814
March	\$ 15.24	\$ 11.51	25,641
April	\$ 13.54	\$ 11.96	23,048
May	\$ 13.00	\$ 11.15	70,190
June	\$ 12.48	\$ 11.26	48,648
July	\$ 11.95	\$ 9.81	25,729
August	\$ 9.99	\$ 9.04	53,680
September	\$ 10.05	\$ 9.41	36,748
October	\$ 9.99	\$ 9.02	32,816
November	\$ 10.25	\$ 9.50	43,518
December	\$ 10.31	\$ 10.00	68,517
Full Year	\$ 16.00	\$ 9.02	44,560

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 ⁽³⁾ Toronto, Ontario	Corporate Director and consultant since 2005; Dean, Faculty of Forestry and Professor of Environmental Sciences, University of Toronto prior thereto.	2005
JACK L. COCKWELL ⁽²⁾ Toronto, Ontario	Group Chairman, Brookfield Asset Management Inc. (asset management) since February 2002; President and Chief Executive Officer of Brookfield prior thereto.	2004
DIAN COHEN, C.M. ⁽¹⁾⁽⁴⁾⁽⁵⁾⁽⁶⁾ Toronto, Ontario	President of DC Productions Limited (economic communications and management consulting).	2004
J. BRUCE FLATT ⁽²⁾⁽⁶⁾ Toronto, Ontario	President and Chief Executive Officer of Brookfield Asset Management Inc. since February 2002; President and Chief Executive Officer of Brookfield Properties Corporation (real estate) prior thereto.	2004
PAUL GAGNÉ ⁽¹⁾⁽²⁾⁽⁵⁾ Montreal, Quebec	Corporate 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) prior thereto.	2004
ROBERT J. HARDING, FCA ⁽⁴⁾⁽⁵⁾ Toronto, Ontario	Chairman of Brookfield Asset Management Inc.	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	Corporate Director since 2002; Dean, Queen's University School of Business prior thereto.	2004
SAM POLLOCK ⁽³⁾⁽⁵⁾ Toronto, Ontario	Managing Partner, Brookfield Asset Management Inc.	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
- (6) Ms. Cohen and Mr. Flatt are not standing for re-election at the Company's next annual meeting.

Brookfield, directly or indirectly, owns approximately 46% of the outstanding Common Shares of the Company.

Officers

Name and Municipality of Residence	Office with Company	Previous occupation
ROBERT J. HARDING, FCA Toronto, Ontario	Chairman	Chairman of Brookfield Asset Management Inc.
DOMINIC GAMMIERO Mississauga, Ontario	President and Chief Executive Officer	Chief Executive Officer of Norbord Inc. 1999-2004.
PETER GORDON..... Toronto, Ontario	Senior Vice President, Finance and Chief Financial Officer	Managing Partner, Brookfield Asset Management Inc.
BILL MANZER Scarborough, Maine	Senior Vice President, Pulp and Paper Operations	Vice President, Operations Fraser Papers Limited, 2003-2005, Vice President, East Papers, prior thereto
GLEN McMILLAN Toronto, Ontario	Senior Vice President and Chief Administrative Officer	Vice President, Controller and Corporate Secretary of Norbord Inc. 1999-2004.
PIERRE MCNEIL Oakville, Ontario	Senior Vice President, Human Resources and Wood Products	Site Director (Cowie), Nexfor Ltd. 2002-2004; Vice President Industrial Panels, Norbord Industries Inc. prior thereto.

As of March 20, 2006, the Directors and senior officers of the Company as a group own, directly or indirectly, or exercise control or direction over approximately 1.1 million 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 an audit report on the audited consolidated financial statements of the Company as at December 31, 2005 and 2004 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.

AUDIT COMMITTEE INFORMATION

The Audit Committee of the Board of Directors (the "Audit Committee") is comprised of four directors, as of March 20, 2006, and the members are: Dian Cohen, Paul Gagné (Chair), Aldéa Landry and Margot Northey. Each member of the Audit Committee is an independent director and financially literate under the standards established by Canadian securities regulatory authorities in Multilateral Instrument 52-110 – Audit Committees. During 2005, the Audit Committee met six times and each meeting included a session with only E&Y and the members of the Audit Committee. A written copy of the Audit Committee's terms of reference is attached as Schedule A to this Annual Information Form.

Relevant Education and Experience

Paul E. Gagné – Chair

Mr. Gagné is a chartered accountant and has extensive experience with accounting and audit committee functions. He received his CA designation from the Institute of Chartered Accountants of Ontario in 1974. Mr. Gagné was President and Chief Executive Officer of Avenor Inc., a producer of forest products, from 1991 to 1997. In that role, Mr. Gagné supervised the Chief Financial Officer. He currently serves on or chairs the audit committees of the following publicly traded companies: CAE Inc., Inmet Mining Corporation and Textron Inc. He is also a director of Gemofor Inc. and Wajax Limited.

Dian Cohen

Ms. Cohen is an economist and President of her own economic consultancy. She currently serves on the audit committees of Norbord Inc. and Great Lakes Hydro Income Fund. Previously, Ms. Cohen served on the audit committees of Sunlife Financial and Canadian Pacific. She also served as a Governor of the Canadian Institute of Chartered Accountants for three years. Ms. Cohen studied financial reporting at the university level while obtaining her economics degree. She is also a director of Norbord Inc. and Dorel Industries, a trustee of Great Lakes Hydro Income Fund and Treasurer of the University Women's Scholarship Foundation.

Aldea Landry

Ms. Landry is President of Landal Inc., an organizational and business development firm, and of J.F.L. Arbitration Services Inc. She is also a director of, The Shaw Group Ltd., the Oxford Frozen Foods Advisory Board, the Canadian Council on Learning and a member of the Security Information Review Committee and of the Atlantic Provinces Economic Council. Ms. Landry is a former cabinet minister and deputy premier of New Brunswick. In addition to studying accounting in law school, Ms. Landry has acquired relevant education and experience while serving as a member of audit committees, on private boards and crown corporations and through attending continuing education seminars.

Margot Northey

Dr. Northey, a corporate director, held the role of Dean, Queen's University School of Business from 1995 to 2002. In that role, Dr. Northey was responsible for reviewing and assessing large, diverse private programs related to the School of Business. Dr. Northey is a director of Norbord Inc., Alliance Atlantis Communications Inc., Wawanese Insurance, British Columbia Transmission Corporation and Stressgen Biotechnologies Corporation. She has acquired considerable relevant education and experience while serving as a member of various audit committees of public companies over the past five years. Currently, she serves on the audit committees of Wawanese Insurance and Alliance Atlantis. Previously, she served on the audit committee of Laurentian Bank.

Pre-approval Policies and Procedures

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

External Auditor Service Fees

The following table sets forth the fees billed by E&Y to the Company for the past two years. Amounts in the table below represent amounts paid by Fraser Papers and its consolidated subsidiaries for periods subsequent to April 21, 2004 and amounts paid directly by the Paper and Timber segments of Norbord prior to June 30, 2004.

	Fees Paid	
	2005	2004
Audit services	\$520,000	\$382,000
Audit-related services	\$170,000	102,000
Taxation services	\$2,000	—
Other non-audit services	\$14,000	—
Total for all services	\$706,000	\$484,000

Description of Services:

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

Audit-related services include audits of the Company's pension plans, interpretation of accounting and reporting standards, comfort letters associated with offering documents and internal control reviews.

Taxation services consist of tax compliance services.

Other non-audit services consist of translation services and compensation consulting services.

In addition to the fees received from the Company, E&Y received fees from Acadian of C\$500,000 related to the initial public offering of Acadian. Acadian was formed on December 15, 2005. The Company was the promoter of Acadian.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

During the second quarter of 2005, the Company exercised its option to acquire a cogeneration plant in New Hampshire from an affiliate of Brookfield for \$34 million. Prior to the acquisition, the Company purchased all of the output of the facility under a tolling agreement. By acquiring this facility, Fraser Papers removed Norbord from its guarantee of amounts owing under the tolling agreement.

A subsidiary of Brookfield had provided the Company with a revolving credit facility in the principal amount of \$83 million, repayable at any time without penalty. During the first quarter of 2005 the Company repaid the \$75 million outstanding on the facility. The facility was then cancelled. In addition, Brookfield has provided the Company with a facility with a notional amount of \$150 million to enter into forward foreign exchange contracts as part of the Company's hedging activities. At December 31, 2005, the Company has entered into forward foreign exchange contracts of C\$70 million under this facility.

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

Fraser Papers purchases goods and services from Brookfield and its affiliates. During 2005, Fraser Papers purchased approximately \$18 million of goods and services, including electricity, wood fibre, forest consulting and financial services from Brookfield and its affiliated companies.

The Company has invested \$10 million in convertible term preferred units of Katahdin, a wholly-owned subsidiary of Brookfield. Katahdin operates two paper mills in Maine. The units earn a preferential cumulative distribution of 5% per annum and are convertible into common equity units of Katahdin. In addition, a wholly-owned subsidiary of the Company (the "lessee") has leased certain productive equipment owned by Katahdin. The amount of the lease payments are determined with reference to the profits generated by those assets such that all of the profits earned by the lessee on those assets, net of a management fee, are remitted to the lessor as a lease payment. During 2005, the lessee earned \$7 million after all lease payments to the lessor.

In January of 2006, the Company sold its timberlands in New Brunswick to Acadian, a newly formed income fund, for net proceeds of approximately \$125 million, including cash of \$94 million and \$31 million of securities. The securities are convertible into 3,613,780 units of the fund, representing a 22% interest on a fully-diluted basis, and are entitled to the same rights as units of the fund. The Company's investment entitles it to regular cash distributions to the extent that Acadian declares them. The Company has also entered into a fibre supply agreement and Crown lands services agreement with Acadian. The fibre supply agreement has a term of 20 years, with an option to extend the agreement for a further 5 years. Brookfield also owns a significant retained interest in Acadian and provides asset management services to the fund.

MATERIAL CONTRACTS

Since January 1, 2005, Fraser Papers has entered into the following material contracts, other than in the ordinary course of business:

- Asset Purchase Agreement related to the sale of our Midwest paper assets
- Indenture related the issuance of 8.75% senior unsecured notes
- Purchase and Sale Agreement related to the sale of our timberlands in Maine
- Asset Purchase Agreement related to the sale of the paperboard business
- Prospectus for Acadian Timber Income Fund ("Acadian")
- FP Acquisition Agreement related to the sale of our New Brunswick timberlands to Acadian
- The Exchange Agreement related to our investment in Acadian
- The Underwriting Agreement related to the establishment of Acadian

See also "General Development of the Business: Changes in the Business since 2003". All of these contracts are available for viewing at www.sedar.com.

FORWARD-LOOKING INFORMATION

This report contains forward-looking information and statements relating but not limited to, operations, anticipated or prospective financial performance, results of operations, business prospects and strategies of Fraser Papers. Examples of such statements included in this document include, but are not limited to, the expected improvements in results following divestitures and other initiatives, expected changes in significant cash flows, strategic and operational intentions and others.

Forward-looking information typically contains statements with words such as "consider", "would", "could", "can", "may", "might", "will", "believe", "expect", "estimate", "likely" or similar words suggesting future outcomes. In addition, forward-looking statements may reflect the outlook on future changes in volumes, prices, costs, estimated amounts and timing of cash flows. Forward-looking statements may also reflect the possible effects if certain future events were to occur, as discussed in the "Risks of the Business" section of this document. They may also reflect other expectations or beliefs, objectives or assumptions about our market and competitive position and about future events or performance, based on information currently available. Readers should be aware that these statements are subject to known and unknown risks, uncertainties, assumptions that may prove to be incorrect and other factors that could cause actual results to differ materially from those suggested by the forward-looking statements.

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

Fraser Papers undertakes no obligation, except as required by law, to update publicly or otherwise revise any forward-looking information, whether as a result of new information, future events or otherwise. Actual results and future events could differ materially from those anticipated in such statements.

ADDITIONAL INFORMATION

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.

The Management Proxy Circular dated March 10, 2006 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, 2005 and in the Company's Management's Discussion and Analysis.

APPENDIX A

AUDIT COMMITTEE – TERMS OF REFERENCE

1. ROLE OF AUDIT COMMITTEE

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

2. AUTHORITY AND RESPONSIBILITIES

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

(a) Financial Information and Reporting

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

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

(ii) to review the Corporation's financial reporting and accounting standards and principles and any proposed material changes to them or their application.

(b) **Internal Controls** – to review, with the chief administrative officer ("CAO"), the external auditor and others, as appropriate, the Corporation's internal system of internal controls.

(c) External Audit

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

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

(iii) to evaluate the audit services provided by the external auditor, pre-approve all audit fees and recommend to the Board, if necessary, the replacement of the external auditor;

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

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

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

- (d) **Risk Management** – to review and monitor the Corporation’s major financial risks and risk management policies and the steps taken by management to mitigate those risks.
- (e) **Compliance**
 - (i) to review the Corporation’s financial reporting procedures and policies to ensure compliance with all legal and regulatory requirements and to investigate any non-adherence to those procedures and policies; and
 - (ii) to establish procedures for the receipt and treatment of any complaint regarding accounting, internal accounting controls or auditing matters including procedures for the confidential, anonymous submissions by employees of concerns regarding questionable accounting or auditing matters.

3. **COMPOSITION AND PROCEDURES**

- (a) **Size** – The Committee will consist of a minimum of three directors. The members of the Committee are appointed by the Board upon the recommendation of the Corporate Governance and Nominating Committee and may be removed by the Board in its discretion.
- (b) **Qualifications** – All members of the Committee must meet the independence and financial literacy requirements of applicable regulatory authorities and at least one member of the Committee must be a financial expert.
- (c) **Meetings** – The Committee will meet at least five times a year and a portion of each meeting will be held without the presence of management.
- (d) **Review of Financial Statements** – The Committee will review the Corporation’s annual audited financial statements with the chief executive officer ("CEO") and chief financial officer ("CFO") and then the full Board. The Committee will review the interim financial statements with the CEO and CFO. The external auditor will be present at these meetings.
- (e) **Review of CEO and CFO Certification Process** – In connection with its review of the annual audited financial statements and interim financial statements, the Committee will also review the process for the CEO and CFO certifications with respect to the financial statements and the Corporation’s disclosure and internal controls, including any material deficiencies or changes in those controls.
- (f) **Review of Earnings and Other Releases** – The Committee will review with the CFO any earnings guidance to be issued by the Corporation and any news release containing financial information taken from the Corporation’s financial statements prior to the release of the financial statements to the public. In addition, the CFO must review with the Committee the substance of any presentations to analysts or rating agencies that contain a change in strategy or outlook.
- (g) **Approval of Audit and Non-Audit Services** – In addition to recommending the external auditor to examine the Corporation’s financial statements, the Committee must approve any use of that external auditor to provide non-audit services prior to its engagement. It is the Committee’s practice to restrict the non-audit services that may be provided by the external auditor in order to minimize relationships that could appear to impair the objectivity of the external auditor.
- (h) **Hiring Guidelines for Independent Auditor Employees** – The Committee will adopt guidelines regarding the hiring of any partner or employee or former partner or employee of any external auditor of the Corporation.

- (i) **Audit Partner Rotation** – The Committee will ensure that the lead audit partner assigned by the external auditor to the Corporation, as well as the independent review partner charged with reviewing the financial statements of the Corporation, are changed at least every five years.
- (j) **Process for Handling Complaints about Accounting Matters** – The Committee has established the following procedure for the receipt and treatment of any complaint received by the Corporation regarding accounting, internal accounting controls or auditing matters:
 - (i) The Corporation will make available and make known special mail and e-mail addresses and a telephone number for receiving complaints regarding accounting, internal accounting controls or auditing matters.
 - (ii) Copies of complaints received will be sent to the members of the Committee.
 - (iii) All complaints will be investigated by the Corporation’s finance staff, as directed by the Committee. The Committee may request that outside advisors be retained to investigate any complaint.
 - (iv) The status of each complaint will be reported on a quarterly basis to the Committee and, if the Committee so directs, to the full Board.

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

- (k) **Evaluation** – The Committee will conduct and present to the Board an annual evaluation of the performance of the Committee and the adequacy of these terms of reference and recommend any proposed change to the Board for approval.
- (l) **Other Matters** – The Committee will conduct reviews, and where appropriate recommend action by the Board, on:
 - (i) the annual information form to be filed by the Corporation;
 - (ii) regular reports on outstanding litigation that could have a material effect on the Corporation;
 - (iii) an annual certificate of the CEO attesting that senior management of the Corporation have received and agreed to be bound by the Corporation’s Code of Business Conduct and as to compliance with the Code;
 - (iv) an annual report on officers’ expenses;
 - (v) an annual report on consulting and legal fees paid by the Corporation; and
 - (vi) an annual report on the Corporation’s insurance coverage and costs.

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