

# **Fraser**Papers

**Fraser Papers Inc.**

## **CIRCULAR**

**Notice of  
Annual Meeting of Shareholders  
and  
Management Proxy Circular**

**March 10, 2006**



## TABLE OF CONTENTS

<b>PART ONE</b>	<b>Voting Information .....</b>	<b>1</b>
<b>PART TWO</b>	<b>Business of the Meeting .....</b>	<b>3</b>
	1. Annual Report and Financial Statements .....	<b>3</b>
	2. Election of Directors .....	<b>3</b>
	3. Appointment of Auditors .....	<b>8</b>
<b>PART THREE</b>	<b>Audit Committee Report .....</b>	<b>9</b>
<b>PART FOUR</b>	<b>Executive Compensation Report .....</b>	<b>9</b>
<b>PART FIVE</b>	<b>Statement of Corporate Governance Practices .....</b>	<b>15</b>
<b>PART SIX</b>	<b>Other Information .....</b>	<b>21</b>
<b>SCHEDULE A</b>	<b>Board of Directors Terms of Reference</b>	
<b>SCHEDULE B</b>	<b>Audit Committee Terms of Reference</b>	



# FraserPapers

March 10, 2006

Dear Shareholder:

On behalf of the Board of Directors, I would like to invite you to attend Fraser Papers' second Annual Meeting of Shareholders at the Hockey Hall of Fame, Toronto, Ontario on Thursday, May 4, 2006 at 10:30 a.m. local time. At the Meeting, we look forward to reviewing the business and affairs of the Corporation and, following the Meeting, you will have an opportunity to meet the directors and executives who will be pleased to answer your questions. If you are unable to attend in person, I invite you to log on to our web site at [www.fraserpapers.com](http://www.fraserpapers.com) and listen to our web cast.

Along with the Notice of Meeting, Management Proxy Circular, Audited Financial Statements and Management's Discussion and Analysis we also enclose the Form of Proxy, or Voting Instruction Form depending on whether you are a registered shareholder or if you hold your shares beneficially.

I hope you can attend the Meeting and vote in person. However, if you are unable to attend, we encourage you to vote as soon as possible, either by telephone, proxy or via the internet.

Yours truly,

A handwritten signature in black ink, appearing to read "R. Harding", with a period at the end. The signature is written in a cursive style.

Robert J. Harding  
Chairman

## NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

**NOTICE IS HEREBY GIVEN** that the Annual Meeting of Shareholders of Fraser Papers Inc. (the "Corporation") will be held in the Hockey Hall of Fame, BCE Place, 30 Yonge Street, Toronto, Canada on **Thursday, May 4, 2006 at 10:30 a.m.**, Toronto time, for the following purposes:

- 1) to receive the annual report to shareholders, including the consolidated financial statements of the Corporation, together with the auditors' report thereon, and Management's Discussion and Analysis for the fiscal year ended December 31, 2005;
- 2) to elect directors for the ensuing year;
- 3) to appoint auditors for the ensuing year and authorize the directors to fix the remuneration to be paid to the auditors; and
- 4) to transact such other business as may properly come before the Meeting or any adjournment thereof.

The Management Proxy Circular accompanying this Notice provides additional information relating to the matters to be dealt with at the Meeting.

**Registered shareholders who are unable to attend the Meeting in person or who wish to vote in advance of the Meeting, are invited to vote by signing and returning the enclosed form of proxy in the envelope provided for that purpose. Proxies to be used at the Meeting must be deposited with Fraser Papers Inc. c/o ADP Investor Communications, Proxy Department, 5970 Chedworth Way, Mississauga, Ontario L5R 4G5 not later than the close of business on Tuesday, May 2, 2006 or, if the Meeting is adjourned, 48 hours (excluding Saturdays, Sundays and holidays) before the time for the adjourned Meeting. Shareholders may also vote by telephone or via the internet. Instructions for telephone and internet voting are located on the form of proxy. Non-registered shareholders will be provided with voting instructions by the intermediaries who hold the shares on their behalf.**

By Order of the Board of Directors



GLEN MCMILLAN  
*Senior Vice President  
and Chief Administrative Officer*

*Toronto, Canada  
March 10, 2006*

# MANAGEMENT PROXY CIRCULAR

## PART ONE – VOTING INFORMATION

### SOLICITATION OF PROXIES

*This Management Proxy Circular (“Circular”) is furnished in connection with the solicitation by management of Fraser Papers Inc. (“Fraser Papers” or the “Corporation”) of proxies for use at the Annual Meeting of Shareholders of the Corporation* (the “Meeting”) referred to in the accompanying Notice of Meeting (the “Notice”) to be held at the time and place and for the purposes set forth in the Notice. The solicitation of proxies will be primarily by mail but proxies may be solicited personally or by telephone by directors, officers or employees of the Corporation. The cost of solicitation will be borne by the Corporation. The information contained in this Circular is given as at March 10, 2006, unless otherwise indicated. The Corporation reports financial results in U.S. dollars. Accordingly, unless otherwise indicated, all financial information in this Circular is in U.S. dollars.

### APPOINTMENT OF PROXIES

The persons named in the enclosed form of proxy are management representatives and are directors and/or officers of the Corporation. ***Each shareholder has the right to appoint any person, who need not be a shareholder of the Corporation, other than the persons named in the enclosed form of proxy to represent such shareholder at the Meeting or any adjournment thereof.*** This right may be exercised by inserting such person’s name in the blank space provided in the form of proxy. The completed form of proxy must be deposited with Fraser Papers Inc. c/o ADP Investor Communications, Proxy Department, 5970 Chedworth Way, Mississauga, Ontario L5R 4G5 not later than the close of business on Tuesday, May 2, 2006 or, if the Meeting is adjourned, 48 hours (excluding Saturdays, Sundays and holidays) before the time for the adjourned Meeting.

Instructions for voting by telephone or via the Internet are located on the enclosed form of proxy.

### NON-REGISTERED HOLDERS

Only registered holders of Common Shares of the Corporation, or the persons they appoint as their proxies, are permitted to attend and vote at the Meeting. However, in many cases, Common Shares beneficially owned by a holder (a “Non-Registered Holder”) are registered either:

- a) in the name of an intermediary (an “Intermediary”) that the Non-Registered Holder deals with in respect of the shares, such as, among others, banks, trust companies, securities dealers or brokers and trustees or administrators of self-administered RRSPs, RRIFs, RESPs and similar plans; or
- b) in the name of a depository (such as The Canadian Depository for Securities Limited) of which the Intermediary is a participant.

In accordance with the requirements of National Instrument 54-101 – Communication with Beneficial Owners of Securities of a Reporting Issuer, the Corporation has distributed copies of the accompanying Notice, this Circular, the enclosed form of proxy and the Corporation’s 2005 annual report (which includes Management’s Discussion and Analysis and the consolidated financial statements for the fiscal years ended December 31, 2004 and 2005) (collectively, the “Meeting Materials”) to the depository and Intermediaries for onward distribution to Non-Registered Holders.

Non-Registered Holders who have not waived the right to receive the Meeting Materials will receive either a voting instruction form or, less frequently, a form of proxy. The purpose of these forms is to permit Non-Registered Holders to direct the voting of the shares they beneficially own. Non-Registered Holders should follow the procedures set out below, depending on which type of form they receive.

- a) **Voting Instruction Form.** In most cases, a Non-Registered Holder will receive, as part of the Meeting Materials, a voting instruction form. If the Non-Registered Holder does not wish to attend and vote at the Meeting in person (or have another person attend and vote on his or her behalf), the voting instruction form can be completed, signed and returned in accordance with the

directions on the form. Voting instruction forms can be completed by telephone or through the Internet. If a Non-Registered Holder wishes to attend and vote at the Meeting in person (or have another person attend and vote on his or her behalf), the Non-Registered Holder must complete, sign and return the voting instruction form in accordance with the directions provided. A form of proxy giving the right to attend and vote will be forwarded to the Non-Registered Holder upon receipt of the voting instruction form.

- b) **Form of Proxy.** Less frequently, a Non-Registered Holder will receive, as part of the Meeting Materials, a form of proxy that has already been signed by the Intermediary (typically by a facsimile, stamped signature) which is restricted as to the number of shares beneficially owned by the Non-Registered Holder but which is otherwise incomplete. If the Non-Registered Holder does not wish to attend and vote at the Meeting in person (or have another person attend and vote on his or her behalf), the Non-Registered Holder can complete the form or proxy and deposit it with Fraser Papers Inc. c/o ADP Investor Communications, Proxy Department, 5970 Chedworth Way, Mississauga, Ontario L5R 4G5 as described above. If a Non-Registered Holder wishes to attend and vote at the Meeting in person (or have another person attend and vote on his or her behalf), the Non-Registered Holder must strike out the names of the persons named in the proxy and insert the Non-Registered Holder's (or such other person's) name in the blank space provided.

***Non-Registered Holders should follow the instructions on the forms they receive and contact their Intermediaries promptly if they need assistance.***

#### **REVOCATION**

A shareholder who has given a proxy has the power to revoke it as to any matter on which a vote has not already been cast pursuant to the authority conferred by the proxy and may do so: (1) by delivering another properly executed form of proxy bearing a later date and depositing it as described above; (2) by depositing an instrument in writing revoking the proxy executed by the shareholder or by the shareholder's attorney authorized in writing (a) at the registered office of the Corporation at any time up to and including the last business day preceding the day of the Meeting or any adjournment thereof at which the proxy is to be used, or (b) with the Chair of the Meeting prior to its commencement, on the day of the Meeting or any adjournment thereof; or (3) by any other manner permitted by law.

A Non-Registered Holder may revoke a voting instruction form or a waiver of the right to receive Meeting Materials and to vote given to an Intermediary at any time by written notice to the Intermediary, and such Intermediary will be required to use best efforts to reflect such revocation.

#### **VOTING OF SHARES REPRESENTED BY MANAGEMENT PROXIES**

The management representatives designated in the enclosed form of proxy will vote or withhold from voting the shares in respect of which they are the appointed proxy on any ballot that may be called for in accordance with the instructions of the shareholder as indicated on the proxy and, if the shareholder specifies a choice with respect to any matter to be acted upon, the shares will be voted accordingly. In respect of each matter identified or referred to for which no instruction is given, the management representatives will vote the shares represented thereby in accordance with management's recommendation.

The enclosed form of proxy confers discretionary authority with respect to amendments to or variations of matters identified in the Notice and with respect to other matters which may properly come before the Meeting. At the date of this Circular, the management of the Corporation knows of no such amendments, variations or other matters expected to come before the Meeting.

#### **VOTING SHARES**

As at March 10, 2006, the Corporation had outstanding 29,509,876 fully paid and non-assessable Common Shares. Each registered holder of Common Shares of record, at the close of business on Monday, March 13, 2006, the record date (the "Record Date") established for the purposes of determining shareholders entitled to receive notice of and to vote at the Meeting, will be entitled to one vote for each Common Share held on all matters to come before the Meeting or any adjournment thereof either in

person, or by proxy. For a description of the procedures to be followed by Non-Registered Holders to direct the voting of shares beneficially owned, see "Non-Registered Holders" above.

#### **PRINCIPAL HOLDERS OF VOTING SHARES**

To the knowledge of the directors and officers of the Corporation, the only person or corporation beneficially owning, directly or indirectly, or exercising control or direction over, voting securities of the Corporation carrying more than 10% of the votes attached to any class of outstanding voting securities of the Corporation is Brookfield Asset Management Inc. ("Brookfield"), which has advised the Corporation that it owns, beneficially, 13,439,596 Common Shares of the Corporation, either directly or through a wholly-owned subsidiary, representing approximately 46% of the Common Shares outstanding. The registered and executive office address of Brookfield is Suite 300, 181 Bay Street, Toronto, Ontario M5J 2T3. Messrs. J.L. Cockwell, J.B. Flatt, R.J. Harding and S.J.B. Pollock, directors of the Corporation, are also directors and/or officers of Brookfield.

The Corporation is advised that Brookfield's major shareholder is Partners Limited ("Partners"). Partners and its shareholders collectively hold, directly and indirectly, or have warrants and options to acquire approximately 45 million Class A Limited Voting Shares of Brookfield, representing approximately 17% of the outstanding Class A Limited Voting Shares of Brookfield on a fully diluted basis. 17.4 million shares are held through BNN Investments Inc. ("BNN"). Partners together with 13 of its shareholders together own 85% of BNN. Partners is an investment holding company owned by 45 shareholders, none of whom holds more than a 15% effective equity interest in Partners. Messrs. J.L. Cockwell, J.B. Flatt, D. Gammiero, R.J. Harding and S.J.B. Pollock, who are directors of the Corporation, are shareholders of Partners.

## **PART TWO – BUSINESS OF THE MEETING**

### **1. ANNUAL REPORT AND FINANCIAL STATEMENTS**

The Annual Financial Statements of the Corporation and Management's Discussion and Analysis for the fiscal year ended December 31, 2005, which are included in the Corporation's 2005 Annual Report, will be placed before the shareholders at the Meeting. The Corporation's 2005 Annual Report is being mailed with this Circular to all registered holders of Common Shares, and to Non-Registered Holders who have so requested. Additional copies of the 2005 Annual Report may be obtained from Fraser Papers upon request and will be available at the Meeting.

### **2. ELECTION OF DIRECTORS**

Eight nominees are proposed for election to the Board of Directors of the Corporation (the "Board") at this Meeting. ***The management representatives designated in the enclosed form of proxy intend, unless otherwise directed, to vote for the election of a Board composed of the eight nominees listed below to serve until the next Annual Meeting of Shareholders of the Corporation or until their successors are duly elected or appointed.*** Management has received consents from the proposed nominees to serve as directors, but if, for any reason, prior to the Meeting any of the proposed nominees is unable to serve as a director, the management representatives designated in the enclosed form of proxy, unless directed to withhold from voting in the election of directors, reserve the right to vote for other nominees at their discretion.

#### **Nominees for Directors**

The following pages set out information on the persons proposed to be nominated for election as directors by the holders of Common Shares, each to hold office until the next Annual Meeting or until a successor is elected or appointed. The number of Common Shares owned and Deferred Share Units and Options held are as at March 10, 2006.

All of the persons elected as members of the Board at the last Annual Meeting, held on May 5, 2005, are standing for re-election, except for Dian Cohen and Bruce Flatt.

---

**Rorke B. Bryan – Toronto, Canada**



Dr. Bryan, a corporate director, held the role of Dean of the Faculty of Forestry and Professor of Environmental Sciences at the University of Toronto from 1994 to 2005. In that capacity, he established programs in Forest Conservation, Wood Product Development and International Trade in Forest Products. Author of numerous scientific publications, Dr. Bryan has also served on many committees, including: President, Association of University Forestry Schools of Canada; Board Member, Forest Engineering Research Institute of Canada; and Member of the National Advisory Board on Forestry Research.

*Member of the Environment, Health and Safety Committee*

100 Common Shares  
3,146 Deferred Share Units

---

**Jack L. Cockwell, CA – Toronto, Canada**



Mr. Cockwell is Group Chairman of Brookfield, an asset management company. Prior to his role as Group Chairman, he was President and Chief Executive Officer of Brookfield. Mr. Cockwell is also a director of the following publicly traded companies: Brookfield Properties Corporation, Norbord Inc. and Astral Media Inc. He is Chairman of the Board of Trustees of the Royal Ontario Museum, a director of the C.D. Howe Institute and a Governor of Ryerson University.

*Chair of the Human Resources Committee*

5,385 Common Shares<sup>(1)</sup>

---

**Paul E. Gagné, CA – Senneville, Canada**



Mr. Gagné is a corporate director and was previously a consultant in corporate strategic planning for Kruger Inc., a privately held producer of forest products. He is also a director of CAE Inc., Gemofor Inc., Inmet Mining Corporation, Textron Inc. and Wajax Limited. Mr. Gagné was President and Chief Executive Officer of Avenor Inc., a producer of forest products, until 1997.

*Chair of the Audit Committee and member of the Human Resources and Pension Committees*

5,921 Deferred Share Units

---

**Dominic Gammiero – Mississauga, Canada**



Mr. Gammiero is President and Chief Executive Officer of the Corporation. He is also a director of Norbord Inc. Previously Mr. Gammiero was President and Chief Executive Officer of Norbord Inc. from 1999 to 2004. Mr. Gammiero has more than 30 years' experience in the forest products industry in North America and Europe.

177,203 Common Shares<sup>(1)</sup>  
68,261 Deferred Share Units  
300,000 Options

---

**Robert J. Harding, FCA – Toronto, Canada**



Mr. Harding is Chairman of the Corporation and Chairman of Brookfield. He is also a director of the following publicly traded companies: BPO Properties Ltd., Norbord Inc. and Burlington Resources Inc. Mr. Harding is Chairman of the Board of Governors of the University of Waterloo and a Trustee of the United Way of Greater Toronto, and of The Hospital for Sick Children.

*Chair of the Pension Committee and member of the Corporate Governance and Nominating Committee*

400 Common Shares<sup>(1)</sup>

---

**Aldéa Landry, Q.C. – Moncton, Canada**



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.

*Chair of the Corporate Governance and Nominating Committee and member of the Audit and Environment, Health and Safety Committees.*

200 Common Shares  
2,844 Deferred Share Units

---

**Margot Northey – North Saanich, Canada**



Dr. Northey, a corporate director, held the role of Dean, Queen's University School of Business from 1995 to 2002. She is a widely respected author of numerous articles, books and reports on a broad range of contemporary topics in business, corporate affairs, communications and the humanities. In addition to her role on the Fraser Papers Board, Dr. Northey is a director of Norbord Inc. She is also a director of Alliance Atlantis Communications Inc., Wawanesa Insurance, British Columbia Transmission Corporation and Stressgen Biotechnologies Corporation.

*Chair of the Environment, Health and Safety Committee and member of the Audit and Human Resources Committees.*

1,468 Common Shares  
5,245 Deferred Share Units

---

**Samuel J.B. Pollock, CA – Toronto, Canada**



Mr. Pollock is Managing Partner and President, Investments of Brookfield. He is also a trustee of Acadian Timber Income Fund. Mr. Pollock has held various senior positions in the Brookfield organization, including leading advisory services and merchant banking operations, since 1994.

*Member of the Environment, Health and Safety and Pension Committees.*

see note<sup>(1)</sup>

---

(1) Management understands that, in addition to the shares listed above, Messrs. Cockwell, Gammiero, Harding and Pollock also own shares indirectly through their ownership of Brookfield common shares. These indirect ownership interests exceed the minimum share ownership requirements for directors as set out under "Compensation and Share Ownership" below.

### Other Corporations/Entities Where the Directors are Members of the Same Board

The following table lists the directors who served together as directors on the boards of other corporations during the financial year ended December 31, 2005.

<i>Director</i>	<i>Name of Corporation</i>
Jack L. Cockwell J. Bruce Flatt Robert J. Harding	Brookfield Asset Management Inc.
Jack L. Cockwell J. Bruce Flatt Robert J. Harding	Falconbridge Limited
Jack L. Cockwell Dian Cohen J. Bruce Flatt Dominic Gammiero Robert J. Harding Margot Northey	Norbord Inc.

### Directors' Attendance Report for Meetings Held in 2005

It is the Board's expectation that each member of the Board should attend each meeting of the Board and the committees of which they are a member. However, in circumstances where individual directors are unable to attend a meeting, the Chair or senior management will meet with the absent director at a convenient time after the meeting to brief them on the events of the meeting.

During 2005 the Board held 10 meetings and its committees held 13 meetings. These included five regularly scheduled meetings of the Board, five meetings of the Board that were called to deal with specific items of business, six meetings of the Audit Committee, two meetings of each of the Corporate Governance and Nominating Committee, the Environment, Health and Safety Committee, and the Pension Committee, and one meeting of the Human Resources Committee. The following table summarizes Directors' attendance at these meetings.

	<i>Board</i>	<i>Audit Committee<sup>(1)</sup></i>	<i>Corporate Governance &amp; Nominating Committee<sup>(1)</sup></i>	<i>Environment, Health &amp; Safety Committee<sup>(1)</sup></i>	<i>Human Resources Committee<sup>(1)</sup></i>	<i>Pension Committee<sup>(1)</sup></i>
<i>Meetings held in 2005</i>	10	6	2	2	1	2
<i>Meetings attended in 2005:</i>						
Rorke B. Bryan <sup>(2)</sup>	6			1		
Jack L. Cockwell	10				1	
Dian Cohen	8	4	2			2
J. Bruce Flatt	9				1	
Paul E. Gagné	10	6			1	2
Dominic Gammiero	10					
Robert J. Harding	8		2			2
Aldéa Landry	10	6	2	2		
Margot Northey	10	6		2	1	
Samuel J.B. Pollock	10			2		2

(1) Attendance shown only for Committee members.

(2) Dr. Bryan joined the Board on May 5, 2005 after the Board had already held four meetings and the Environment, Health and Safety Committee had held one meeting.

In October of 2005, a special committee of the Board (the "Special Committee") was established to evaluate the sale of the Corporation's Canadian timberlands business to Acadian Timber Income Fund ("Acadian"). The Special Committee, comprised of five directors who are independent under the standards established by Canadian securities regulatory authorities in National Instrument 58-101 – Disclosure of Corporate Governance Practices, and who are not officers of Brookfield or its affiliates, held six meetings during 2005 and one meeting in 2006. The members of the Special Committee were Rorke Bryan, Dian Cohen, Paul Gagné (Chair), Aldéa Landry and Margot Northey. All members attended each of the meetings of the Special Committee, except for Mmes. Cohen and Landry who were each absent for one meeting.

### Deferred Stock Unit Plan for Non-Management Directors

A deferred stock unit plan for non-management directors was adopted in 2004. Independent directors of the Corporation who are not officers of Brookfield or its affiliates (the "non-management directors") may elect to take a portion of their directors fees in the form of Deferred Share Units. Deferred Share Units are credited at the fair market value of Fraser Papers Common Shares on the date the directors fees are payable and are redeemed for cash when the holder ceases to be a director.

### Compensation and Share Ownership

The compensation arrangements for directors were adopted by the Corporation in 2004. Non-management directors are entitled to receive an annual directors fee of C\$40,000. The Chair of the Audit Committee receives an additional annual retainer of C\$5,000. The Chairs of all other Board committees receive an additional annual retainer of C\$3,000. There are no fees payable for meeting attendance or committee membership, with the exception of special committees, for which any additional fees are considered by the Board on a case by case basis. On February 7, 2006, members of the Special Committee were awarded additional fees of C\$7,500 and the Chair of the Special Committee was awarded an additional fee of C\$10,000.

In 2005, five non-management directors received, in total, cash compensation of C\$46,875 and 15,562 Deferred Share Units. The compensation received by each director for 2005 is set out below.

	<i>Directors Compensation in 2005</i>	
	<i>Actual Fees Earned (\$C)</i>	<i>% Taken in Deferred Share Units</i>
Rorke Bryan	30,000	100%
Jack L. Cockwell <sup>(1)</sup>	—	n/a
Dian Cohen	40,000	50%
J. Bruce Flatt <sup>(1)</sup>	—	n/a
Paul E. Gagné	45,000	100%
Dominic Gammiero <sup>(2)</sup>	—	n/a
Robert J. Harding <sup>(1)</sup>	—	n/a
Aldéa Landry	43,000	50%
Margot Northey	43,000	88%
Samuel J.B. Pollock <sup>(1)</sup>	—	n/a

(1) Messrs. Cockwell, Flatt, Harding and Pollock, as representatives of Brookfield, received no compensation for their roles on the Board and its committees. An aggregate payment of C\$166,000 was made to Brookfield for their services.

(2) Mr. Gammiero, as a representative of senior management, received no compensation for his role on the Board.

The Board believes that directors can better represent the Corporation's shareholders if they are shareholders themselves. Accordingly, the Board requires all directors to hold, directly or indirectly, Common Shares or Deferred Share Units equal in value to at least three times their Annual Retainer (approximately C\$120,000). This minimum share ownership requirement must be achieved within five years of joining the Board. Directors who have not met the minimum requirement are encouraged to take a portion of their annual compensation in the form of Deferred Share Units until the minimum share ownership requirement is achieved.

Directors are also reimbursed for travel and other out-of-pocket expenses incurred in attending Board or committee meetings. During 2005, five non-management directors received approximately C\$40,000 of reimbursement for such expenses.

### 3. APPOINTMENT OF AUDITORS

At the Board meeting held on February 7, 2006, the Audit Committee recommended the nomination of Ernst & Young LLP for reappointment as external auditors of the Corporation, subject to shareholder approval. Ernst & Young LLP and its respective affiliates (collectively "Ernst & Young") are the auditors of the Corporation. Ernst & Young have served as auditors of the Corporation since being appointed by the Board on April 21, 2004. The resolution to appoint Ernst & Young as auditors must be passed by a simple majority of the votes cast either in person or by proxy.

***Unless the shareholder has specified in the enclosed form of proxy that the shares represented by such proxy are to be withheld from voting in the appointment of auditors, on any ballot that may be called for in the appointment of auditors, the management representatives designated in the enclosed form of proxy intend to vote such shares in favour of reappointing Ernst & Young, Chartered Accountants, as auditors of the Corporation to hold office until the next Annual Meeting of Shareholders, and authorizing the directors to fix the remuneration to be paid to the auditors.***

#### Accounting Firm Fees

Aggregate fees billed to the Corporation for the fiscal year ended December 31, 2005 by Ernst & Young amounted to approximately \$706,000. The Audit Committee has adopted a policy regarding the provision of non-audit services by the Corporation'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 Corporation's external auditors cannot perform, including the use of its external auditors for financial information system design and implementation assignments.

The following table sets forth further information on the fees billed by Ernst & Young to the Corporation 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 Inc. ("Norbord") (the previous owner of Fraser Papers) prior to June 30, 2004.

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

#### Description of Services:

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

*Audit-related services* include audits of the Corporation'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 Corporation, Ernst & Young received from Acadian of C\$500,000 related to the initial public offering of Acadian. Acadian was formed on December 15, 2005. The Corporation was the promoter of Acadian.

Ernst & Young has advised the Audit Committee that it considers itself to be independent of the Corporation and the Audit Committee has confirmed that it considers Ernst & Young to be independent.

### **PART THREE – REPORT OF THE AUDIT COMMITTEE**

The Audit Committee of the Board is comprised of four directors. As of the date of this circular, the members of the Audit Committee 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. In addition, Mr. Gagné is a chartered accountant and has extensive experience with accounting and audit committee functions for a number of corporations.

The Audit Committee's responsibilities are described in Part Five of this Circular. The Audit Committee held six meetings during 2005. A written copy of its terms of reference is attached as Schedule B to this Circular.

The Audit Committee has reviewed and discussed the Corporation's audited financial statements with management, which has primary responsibility for the preparation of the financial statements. Ernst & Young, the Corporation's independent auditor for 2005, is responsible for expressing an opinion on the preparation of the Corporation's audited financial statements in accordance with generally accepted accounting principles. The committee has reviewed with Ernst & Young the matters that are required to be discussed, including financial statement disclosures, the quality of the Corporation's financial reporting and significant accounting policies.

The Audit Committee also concluded that Ernst & Young's scope of services, as described in Part Two of this Circular, does not compromise their independence.

Based on the reviews, considerations and discussions outlined above, the Audit Committee recommended to the Board, and the Board approved, the audited financial statements of the Corporation and authorized their inclusion in the Corporation's annual report for the year ended December 31, 2005. The Audit Committee also recommended to the Board, subject to shareholder approval, that Ernst & Young LLP be appointed as independent auditors for the Corporation in 2006.

This report has been prepared by the Audit Committee:

P.E. Gagné – Chair

D. Cohen

A. Landry

M. Northey

### **PART FOUR – EXECUTIVE COMPENSATION REPORT**

The following information is provided pursuant to the executive compensation disclosure requirements contained in National Instrument 51-102 – Continuous Disclosure Obligations.

The Corporation's executive compensation program is administered by its Human Resources Committee ("H.R. Committee"). As part of its mandate, the H.R. Committee administers the appointment and remuneration of the Corporation's officers, including annual evaluation of the performance of the five highest paid executive officers (the "Named Executive Officers"). For the President and Chief Executive Officer, the H.R. Committee makes compensation recommendations to be approved by the Board and for all other officers, the H.R. Committee approves the compensation levels. The H.R. Committee is also responsible for reviewing the design and general competitiveness of the Corporation's compensation and benefit programs.

As at the date of this circular, the H.R. Committee is comprised of Jack Cockwell (Chair), Bruce Flatt, Paul Gagné and Margot Northey. Each member of the H.R. Committee is an independent director under the standards established by Canadian securities regulatory authorities in National Instrument 58-101 – Disclosure of Corporate Governance Practices. The H.R. Committee, in accordance with its terms of reference, will meet as required, and at least annually, to monitor and review management compensation

policies, management succession planning and to review the overall composition and quality of the Corporation's management resources. In 2005, the H.R. Committee met once on February 8, 2005.

Mr. Gammiero, the President and Chief Executive Officer of the Corporation, is not a member of the H.R. Committee. He makes recommendations to the H.R. Committee with respect to executive compensation policy and with respect to the compensation paid to senior officers of the Corporation, other than himself. Mr. Gammiero did not participate in H.R. Committee meetings when his compensation was discussed or determined.

## **REPORT ON EXECUTIVE COMPENSATION**

Through its total compensation program for executives, the Corporation aims to attract, retain and motivate top quality people at the executive level. Performance incentives that are tied directly to increases in shareholder value are essential components of the program.

With respect to general philosophy, the H.R. Committee believes that senior executive incentive compensation should be driven primarily by performance relative to the established plans and strategy of the business. The H.R. Committee focuses on rewarding performance, and not on entitlement or seniority.

The Corporation's compensation policies are designed to motivate management to maximize the long-term value of the Corporation's assets and business operations and to provide an overall competitive compensation package with a high proportion for the most senior executives weighted to variable compensation tied to the Corporation's performance. In the case of the Corporation's Chief Executive Officer, this is achieved by maintaining base salary and cash bonus awards below the median base salary level in the industry in return for an opportunity to participate at a higher level in the growth in value of the Corporation's shares.

The Corporation retains the services of external consultants to assist the H.R. Committee in establishing appropriate levels of base salary and incentive compensation for executive officers of the Corporation. The individual components of executive compensation and the H.R. Committee's approach to each are as follows:

### **Senior Management**

#### Base Salaries

Base salaries of the Corporation's executives are reviewed annually to ensure that they reflect the contribution of each executive. The Corporation believes that base salaries should be based on the median level of salaries paid to similar positions at comparable Canadian forest products companies adjusted for size based on sales volumes. The base salary for the Corporation's Chief Executive Officer is also adjusted to reflect a higher weighting to variable compensation as described below.

#### Annual Incentive Plan

On February 8, 2005, the H.R. Committee recommended, and the Board approved, the establishment of a new Annual Incentive Plan ("AIP") to be implemented for 2005 and future years.

The AIP design is based on corporate, business unit and individual performance. Corporate performance is to be measured based on EBITDA (earnings before interest, taxes, depreciation and amortization). The business unit performance factor is based on MIP (Margin Improvement Program) and a factor based on individual performance. Target awards, expressed as a percentage of base salary, have been established for all management positions.

In order to further align management objectives with those of the Corporation's shareholders, members of senior management may elect to receive all or a portion of their incentive payment in the form of Deferred Share Units, as described below under Long-Term Incentive Plans.

#### Long-Term Incentive Plans

The H.R. Committee believes it is important that the interests of senior management be aligned with the objectives of shareholders. The Corporation's Long-Term Incentive Plans are intended to reward

management based on increases in the value of the Corporation's Common Shares. The purpose of these arrangements is to achieve a commonality of interest between shareholders and management and to motivate executives to improve the Corporation's long-term financial success, measured in terms of enhanced shareholder wealth over the long term.

The Corporation's Long-Term Incentive Plans consist of the following components:

- a) A Stock Option Plan ("SOP") for management was adopted in 2004. Options are granted to executives and may be exercised at the option price for a period of up to 10 years. To align management's interests with those of the Corporation's shareholders and ensure that management is committed to the Corporation over the long term, Options vest at the annual rate of 20% per year, beginning on the first anniversary from the date of grant. The market price of the Option is determined by the simple average of the daily averages of the high and low prices at which a board lot of the Fraser Papers Common Shares traded on the Toronto Stock Exchange ("TSX") on each of the five trading days immediately preceding the date of the grant of an Option.

The H.R. Committee determined that for a 12 month period following each exercise of Stock Options, the Named Executive Officers must hold Fraser Papers Common Shares with a minimum value equivalent to the after-tax gain realized through the exercise of the Options.

To determine the size of grants, the H.R. Committee takes into consideration data provided by external consultants on competitive market practices within Canadian forest industry firms and a wider grouping of industrial companies.

On February 8, 2005, Options to purchase a total of 30,000 shares were granted to two senior managers at the market price of C\$14.59 per share.

- b) A Management Deferred Share Unit Plan was adopted in 2004. Executives are encouraged to elect to receive all or a portion of their AIP bonus or other incentive payments, to which they may be entitled, in the form of Deferred Share Units. One unit is equivalent to one Common Share of the Corporation. No certificates are issued with respect to the units. The vesting period for the Deferred Share Units is determined by the Board. Units can only be redeemed for cash after cessation of employment with the Corporation.

### **Chief Executive Officer**

Mr. Gammiero was appointed President and Chief Executive Officer of the Corporation on April 21, 2004. Mr. Gammiero's base salary is reviewed annually and is set below the median level for comparable companies within the forest products industry based on data provided by the Corporation's external compensation consultants. Mr. Gammiero's below market base salary is offset by an enhanced opportunity to participate at a higher level in the growth in value of the Corporation's shares.

For 2005, Mr. Gammiero participated in the Fraser Papers AIP for executive officers. The AIP has a target award of 60% of annual base salary payable based on a corporate EBITDA calculation and upon fulfillment of established individual performance criteria. These individual performance criteria include:

- a) the strategic positioning of the Corporation for profitable growth and success;
- b) the leadership of the organization; and
- c) the management of succession plans to provide continuity of senior management, including that of the Chief Executive Officer.

In 2005, Mr. Gammiero was awarded an incentive payment commensurate with the achievement of corporate and individual objectives. The H.R. Committee's assessment of Mr. Gammiero's performance included the following:

- a) the sale of non-core assets including the sale of the midwest and paperbord operations;
- b) continued strengthening of the Corporation's asset repositioning and product mix, including the sale of the Corporaton's timberlands;
- c) achievement of \$15 million of margin improvement in 2005 under the Corporation's Margin Improvement Program;

- d) restructuring of the senior management team and reporting structure to strengthen the team and ensure continuity of senior management succession, including that of the Chief Executive Officer.

This report has been prepared by the Human Resources Committee:

J.L. Cockwell – Chair

J.B. Flatt

P.E. Gagné

M. Northey

### SUMMARY COMPENSATION OF NAMED EXECUTIVE OFFICERS

The following table sets forth all compensation paid or payable from Fraser Papers or its affiliates in respect of each of the Named Executive Officers for services rendered during the financial years ended December 31, 2005, 2004, and 2003.

Name and Principal Position	Year	Annual Compensation					
		Salary (\$)	Annual Incentive Received in Cash (\$)	Deferred Share Units <sup>(6)</sup> (#)	Other Annual Compensation <sup>(7)</sup> (\$)	Shares Under Options Granted (#)	All Other Compensation (\$)
Dominic Gammiero <sup>(1)</sup> President and Chief Executive Officer	2005	C\$425,000	—	25,773	—	—	C\$15,750
	2004	C\$425,000	—	42,488	C\$215	100,000	—
	2003	C\$425,000	C\$439,450	—	C\$931	—	C\$125,000
Bert Martin <sup>(2)</sup> Chief Operating Officer	2005	\$300,000	—	—	—	—	\$20,022
	2004	\$299,167	—	87,046	—	35,000	\$13,149
	2003	\$299,167	—	—	—	—	\$79,845
William Manzer <sup>(3)</sup> SVP, Pulp and Paper Operations	2005	\$262,176	—	8,247	—	—	\$39,010
	2004	\$257,351	—	8,826	—	20,000	\$7,380
	2003	\$255,175	—	—	—	—	\$11,548
Pierre McNeil <sup>(4)</sup> SVP, Human Resources and Wood Products	2005	C\$207,981	—	8,247	—	—	C\$15,750
	2004	C\$211,286	C\$29,775	16,464	GBP 1,102	20,000	GBP 47,022
	2003	GBP 86,911	GBP 28,175	—	GBP 1,148	—	GBP 16,655
Glen McMillan <sup>(5)</sup> SVP and Chief Administrative Officer	2005	C\$198,788	—	8,247	—	—	C\$15,750
	2004	C\$184,583	C\$69,500	25,579	—	20,000	—
	2003	C\$174,167	C\$93,960	—	—	—	C\$25,000

Notes:

- Mr. Gammiero was appointed President and Chief Executive Officer of Fraser Papers on April 21, 2004. Prior thereto he was President and Chief Executive Officer of Norbord. The compensation shown for 2003 reflects amounts awarded to Mr. Gammiero in his capacity as President and Chief Executive Officer of Norbord. The salary, bonus and Deferred Share Units for 2004 represent the totals received from both Norbord and Fraser Papers during 2004. Mr. Gammiero elected to take 42,488 Deferred Share Units at C\$14.71 per unit, representing 100% of his annual incentive of C\$625,000 in 2004. Mr. Gammiero elected to take 25,773 Deferred Share Units at C\$9.70 per unit, representing 100% of his annual incentive of C\$250,000 in 2005. "All Other Compensation" in 2005 represents the matching contribution by the Corporation in respect of the defined contribution pension plan.
- Mr. Martin was appointed Chief Operating Officer of Fraser Papers on April 21, 2004. Prior thereto he was Executive Vice President, Paper of Norbord since June 2003. Mr. Martin retired effective January 1, 2006. The salary, bonus and Deferred Share Units issued in 2004 represent the totals received from both Norbord and Fraser Papers during 2004. Mr. Martin elected to take 10,178 Deferred Share Units at C\$14.71 per unit, representing 100% of his annual incentive of \$120,000 in 2004. Deferred Share Units include an additional issuance of 76,868 units at C\$14.05 per unit. "All Other Compensation" in 2005 represents the matching contribution by the Corporation to Mr. Martin's 401(k) savings plan of \$7,560, deferred compensation plan match of \$924 and vacation pay of \$11,538.
- Mr. Manzer was appointed Senior Vice President, Pulp and Paper Operations of Fraser Papers on February 7, 2006. Prior thereto he was Vice President, Operations of Fraser Papers Limited. Mr. Manzer's compensation for 2003 was paid by Fraser Papers when it was a wholly-owned division of Norbord. Deferred Share Units consist of 8,826 units at C\$14.05 per unit. Mr. Manzer elected to take 8,247 Deferred Share Units at C\$9.70 per unit, representing 100% of his annual incentive of C\$80,000 in 2005. "All Other Compensation" in 2005 represents the matching contribution by the Corporation to Mr. Manzer's 401(k) savings plan, deferred compensation plan and relocation amounts reimbursed.
- Mr. McNeil was appointed Senior Vice President, Human Resources and Wood Products of Fraser Papers in May 2005. Prior to his appointment, he was Senior Vice President, Human Resources. Before joining Fraser Papers in April 2004, he was Site Director at Norbord's UK Cowie operation. The compensation shown for 2003 reflects amounts awarded to Mr. McNeil in his capacity as an executive of Norbord UK. The salary, bonus and Deferred Share Units issued in 2004 represent the totals received from both Norbord and Fraser Papers during 2004. Mr. McNeil elected to take 6,072 Deferred Share Units at C\$14.71 per unit, representing 75% of his annual incentive of C\$119,100 in 2004. Deferred Share Units include an additional issuance of 10,392 units at C\$14.05 per unit. Mr. McNeil elected to take 8,247 Deferred Share Units at C\$9.70 per unit, representing 100% of his annual incentive of C\$80,000 in 2005. "All Other Compensation" in 2004 represents employer contributions to the Norbord UK Defined Contribution Plan, reimbursement for taxes, vacation pay and relocation amounts reimbursed. "All Other Compensation" in 2005 represents the matching contribution by the Corporation in respect of the defined contribution pension plan.
- Mr. McMillan was appointed Senior Vice President and Chief Administrative Officer of Fraser Papers on April 21, 2004. Prior thereto he was Vice President, Controller and Corporate Secretary of Norbord. The compensation shown for 2003 reflects

amounts awarded to Mr. McMillan in his capacity as an executive of Norbord. The salary, bonus and Deferred Share Units issued in 2004 represent the totals received from both Norbord and Fraser Papers during 2004. Mr. McMillan elected to take 4,725 Deferred Share Units at C\$14.71 per unit representing 50% of his annual incentive of C\$139,000 in 2004. Deferred Share Units include an additional issuance of 20,854 units at C\$14.05 per unit. Mr. McMillan elected to take 8,247 Deferred Share Units at C\$9.70 per unit, representing 100% of his annual incentive of C\$80,000 in 2005. "All Other Compensation" in 2005 represents the matching contribution by the Corporation in respect of the defined contribution pension plan.

- (6) The Deferred Share Units are credited at the fair market value of Fraser Papers' Common Shares on the date granted by the Board and vest over a period of up to three years.
- (7) The value of perquisites and benefits for each Named Executive Officer is less than the lesser of \$50,000 and 10% of total annual salary and bonus. The amounts quoted in this column represent the dollar value of imputed interest benefits relating to housing loans. All housing loans were repaid in full in 2004.

### SHARE AND DSU OWNERSHIP

On February 8, 2005 the Board passed a resolution setting out the minimum ownership of Common Shares or Deferred Share Units for the Named Executive Officers. Each Named Executive Officer is required to hold Common Shares or Deferred Share Units equal to at least one times his salary, except for Mr. Gammiero, who is required to hold two times his salary. Named Executive Officers have up to five years to accumulate the minimum requirements. At March 10, 2006, three of the Named Executive Officers had accumulated their minimum requirements.

The following table sets forth for each Named Executive Officer the total number of Common Shares of the Corporation owned or controlled as at March 10, 2006, as well as the number of Deferred Share Units held by the executive at that date:

	Common Shares Held (#)	Deferred Share Units Held (#)		Total (#)
		Vested	Unvested	
Dominic Gammiero	177,203	42,488	25,773	245,464
Bert Martin	35,000	35,800	51,246	122,046
William Manzer	—	2,942	14,131	17,073
Pierre McNeil	1,932	9,536	15,175	26,643
Glen McMillan	2,150	11,676	22,150	35,976

### STOCK OPTIONS

There were no grants of Stock Options under the Fraser Papers Stock Option Plan during the financial year ended December 31, 2005 to the Named Executive Officers. No shares were acquired on exercise in 2005.

### SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS DURING THE FINANCIAL YEAR ENDED DECEMBER 31, 2005

Plan Category	Number of Securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Fraser Papers Stock Option Plan	245,000	\$16.22	2,505,000
Equity compensation plans not approved by securityholders	n/a	n/a	n/a
Total	245,000	\$16.22	2,505,000

### PENSION AND RETIREMENT BENEFITS

Messrs. Gammiero, McMillan and McNeil participated in the Retirement Annuity Plan and Supplemental Executive Retirement Plan (the "Norbord Plans") for Canadian salaried employees of Norbord Inc. up to December 31, 2004. The pension benefits accrued under the Norbord Plans are currently the obligation of Norbord. During 2005, these employees were given the option of either converting their defined benefits accrued to December 31, 2004 under the Norbord Plans into lump sum amounts and then transferring the converted amounts to the new Fraser Papers Inc. Defined Contribution Pension Plan (the

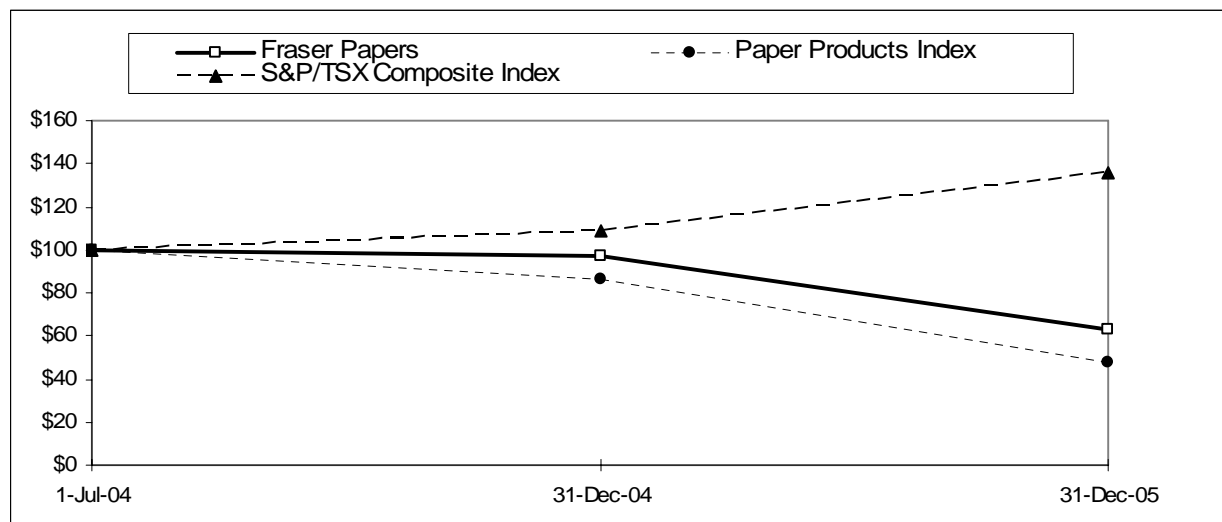
"Fraser DC Plan"), or retaining their accrued defined benefits in the Norbord Plans. In 2005, Messrs. Gammiero, McMillan and McNeil elected to convert their defined benefits accrued under the Norbord Plans and, subject to regulatory approval and applicable pension legislation, the converted benefits will be transferred to the Fraser DC Plan. The pension benefits accrued to December 31, 2004 under the Norbord Plans, converted to lump sum amounts and payable by the Norbord Plans for Messrs. Gammiero, McMillan and McNeil were C\$482,000, C\$132,000 and C\$207,000 respectively, measured as of December 31, 2004. Effective January 1, 2005 Messrs. Gammiero, McMillan and McNeil became participants in the Fraser DC Plan established for Canadian salaried employees of Fraser Papers. Under the Fraser DC Plan, the Corporation contributes an amount equal to 3% of employee earnings plus 50% of employee contributions up to a maximum combined corporate contribution of 7% of employee earnings. To limit the Corporation's retirement benefit liability to employees under the Fraser DC Plan, the maximum pensionable earnings has been set at \$225,000. In 2005, the Corporation's total contributions to the Fraser DC Plan for Messrs. Gammiero, McMillan and McNeil were C\$15,750, C\$15,750 and C\$15,750 respectively.

The pension arrangements for Mr. Martin provide for a benefit based on participation in the Fraser Papers Inc. Pension Equity Plan ("Fraser PEP"), the Fraser Papers Inc. Supplemental Executive Retirement Plan ("Fraser SERP") and the Fraser Operations Salaried Pension Plan. The total accrued benefit obligation for Mr. Martin under these plans is \$1,422,000 at December 31, 2005. The total 2005 service cost under the plans was \$32,000. Effective July 1, 2007 Mr. Martin will receive an annual pension benefit payable under these plans of \$108,206.

The pension arrangements for Mr. Manzer provide for a benefit based on participation in the Fraser PEP and the Fraser SERP. The total accrued benefit obligation for Mr. Manzer under these plans is \$401,000 at December 31, 2005. The total 2005 service cost under the plans was \$40,000. At age 65 Mr. Manzer will have attained 32 years of credited service under the Fraser PEP and 22 years of credited service under the Fraser SERP. The estimated annual pension benefit payable under these plans to Mr. Manzer at normal retirement age (65) is \$114,000.

**PERFORMANCE GRAPH**

The following graph assumes that \$100 was invested on July 1, 2004 in Fraser Papers Inc.'s Common Shares, the TSX Paper Products Index and the S&P/TSX Composite Index respectively.



Fraser Papers Inc.	\$100.00	\$ 97.25	\$ 62.56
TSX Paper Products Index	\$100.00	\$ 86.67	\$ 47.66
S&P/TSX Composite Index	\$100.00	\$109.20	\$135.55

## **PART FIVE – STATEMENT OF CORPORATE GOVERNANCE PRACTICES**

Corporate governance relates to the activities of the members of the Board who are elected by and are accountable to the shareholders, and takes into account the role of management who are appointed by the Board and who are charged with the ongoing management of the Corporation. The Board encourages sound corporate governance practices designed to promote the well-being and ongoing development of the Corporation, having always as its ultimate objective the best long-term interests of the Corporation and the enhancement of value for all shareholders. The Board also believes that sound corporate governance benefits the Corporation's employees and the communities in which Fraser Papers operates.

The Board is of the view that the Corporation's corporate governance policies and practices, outlined below, are comprehensive and consistent with the corporate governance guidelines outlined in National Policy 58-201 – Corporate Governance Guidelines.

### **BOARD OF DIRECTORS**

#### **Mandate of the Board**

The Board recognizes that in order to attain its objective of enhancing shareholder value in a manner that recognizes the concerns of other stakeholders in the Corporation, including its employees, suppliers, customers and the communities in which it operates, the Corporation must have sound corporate governance structures and policies. The Board and the Corporate Governance and Nominating Committee regularly review the terms of reference of the Board and each of the committees of the Board, and the roles of the Chair, the Chief Executive Officer, and the Chair of each committee of the Board, to ensure that the Corporation complies with, or exceeds, all applicable corporate governance rules and standards. The Corporation's corporate governance practices can be viewed on the Corporation's web site at [www.fraserpapers.com](http://www.fraserpapers.com).

Pursuant to its terms of reference, the Board is responsible for supervising the business and affairs of the Corporation, which are managed by its officers and employees under the direction of the Chief Executive Officer. The Board discharges this responsibility directly at regularly scheduled, meetings of the Board that are called to deal with specific items of business and, indirectly, through committees composed of independent directors.

Specifically, the Board:

- 1) oversees the strategic planning process within the Corporation including, on an annual basis, reviewing, approving and monitoring the strategic plan for the Corporation and the fundamental financial and business strategies and objectives in the plan;
- 2) directly and through its Audit Committee, assesses the major risks facing the Corporation and reviews, approves and monitors the manner of managing those risks;
- 3) oversees the selection, evaluation and compensation of senior management and monitors succession planning;
- 4) primarily through the Audit Committee, effectively monitors the integrity of the Corporation's internal controls and systems.

Full terms of reference for the Board are attached as Schedule A to this Circular. The terms of reference of the Board and each of its committees can be viewed on the Corporation's web site at [www.fraserpapers.com](http://www.fraserpapers.com) under "Corporate Governance".

The Board has approved, and acts in accordance with, the Corporation's Code of Business Conduct. All directors, officers and salaried employees are required to sign an acknowledgment annually that they have received, read and understand the contents of the Code of Business Conduct and agree to adherence to its principles. A copy of the Code of Business Conduct can be found on the Corporation's web site at [www.fraserpapers.com](http://www.fraserpapers.com) under "Corporate Governance".

## **Meetings of the Board**

The Board meets at least once each quarter, with additional meetings held when appropriate. During 2005 there were five regularly scheduled meetings and five meetings to review specific matters. Five regular meetings are scheduled for 2006. Meeting frequency and agenda items may change depending on the opportunities or risks faced by the Corporation. The agenda for regularly scheduled Board meetings is prepared by the Chair in consultation with the Chief Executive Officer.

## **Composition and Size of the Board**

The Board currently consists of ten directors. On February 7, 2006 the Board passed a resolution reducing the number of directors on the Board from ten to eight, effective May 3, 2006, which is within the minimum and maximum number range set out in the by-laws of the Corporation. The Corporation considers the size of the Board to be appropriate at this time.

The Board reviewed the relationships between each of its director nominees and the Corporation and has determined that the proposed list of director nominees fairly represents the share ownership interests in the Corporation and the requirements for director independence under Canadian securities legislation.

In reaching this conclusion, the Board considers that Mr. Gammiero is related to the Corporation and the remaining director nominees are independent of the Corporation. Three of the independent director nominees, Messrs. Cockwell, Harding and Pollock (the "Brookfield Directors"), are officers and/or directors of Brookfield and/or its subsidiaries. Brookfield has a number of relationships with the Corporation as described on page 22, "Interest of Management and Others in Material Transactions." Transactions with Brookfield were approved by the independent directors who are not Brookfield Directors. The Board considers that these relationships with Brookfield affiliates are not an interest or a business or other relationship that could, or could reasonably be perceived to, materially interfere with the Brookfield Directors' ability to act with a view to the best interests of the Corporation, other than interests and relationships arising from shareholding. The Board also considers that three directors (less than 40% of eight directors) fairly reflect the relative investment of Brookfield and other shareholders in the Corporation.

The remaining director nominees, Dr. Bryan, Mr. Gagné, Ms. Landry and Dr. Northey have, in the view of the Board, no material relationships or interests that could interfere with their independence as directors.

## **Committees of the Board**

Board committees assist in the effective functioning of the Board. All Board committees are comprised only of independent directors, which ensures that the views of independent directors are effectively represented. The Board has five committees: the Audit Committee, the Corporate Governance and Nominating Committee, the Environment, Health and Safety Committee, the Human Resources Committee and the Pension Committee. Special committees may be formed from time to time as required to review particular matters or transactions. All Board members have an open invitation to attend any committee meeting.

It is the policy of the Board that all Board meetings and committee meetings include a session without the presence of management and related directors. In the case of the Audit Committee, each meeting includes a session with only the external auditors and the committee members.

The terms of reference of all committees and the Board are available on the Corporation's web site at [www.fraserpapers.com](http://www.fraserpapers.com) under "Corporate Governance".

## **Audit Committee**

The Audit Committee assists the Board in meeting its fiduciary responsibilities relating to corporate accounting and reporting practices. Its duties include overseeing internal controls, reviewing risk management practices, and approving quarterly and annual financial filings. Each meeting of the Audit Committee includes a session with only the external auditors and the committee members. The extensive review of audit committees now underway in Canada and the United States has led to a number of specific regulations and recommendations on the mandate, practices and performance of audit committees. As a result, Fraser Papers will continue to review the terms of reference of the Audit

Committee and update the charter as further rules are established. Full terms of reference for the Audit Committee are set out in “Schedule B” of this Circular and on the Corporation’s web site at [www.fraserpapers.com](http://www.fraserpapers.com) under “Corporate Governance”.

### ***Corporate Governance and Nominating Committee***

The Corporate Governance and Nominating Committee is responsible for the development and monitoring of the Corporation’s corporate governance practices. Its duties include the identification and recommendation of potential nominees or appointees to the Board, and the assessment of the effectiveness of the Board, its size and composition, its committee structure and the individual performance of its directors. The committee also has responsibility for the review of the Corporation’s Disclosure Policy and its Code of Business Conduct. Full terms of reference for the Corporate Governance and Nominating Committee are available on the Corporation’s web site at [www.fraserpapers.com](http://www.fraserpapers.com) under “Corporate Governance”.

### ***Environment, Health and Safety Committee***

The mandate of the Environment, Health and Safety Committee is to assist the Board in carrying out its responsibilities with respect to environmental, health and safety issues. The committee reviews compliance with relevant Board resolutions and with the Corporation’s environmental, health and safety policies, and assesses the effectiveness of the Corporation’s environmental management processes and health and safety programs including the review of internal audits of these processes and programs. Full terms of reference for the Environment, Health and Safety Committee are available on the Corporation’s web site at [www.fraserpapers.com](http://www.fraserpapers.com) under “Corporate Governance”.

### ***Human Resources Committee***

The Human Resources Committee approves the Corporation’s compensation and benefits policy and monitors its implementation. It reviews management succession plans and considers appointments of officers of the Corporation. The committee annually assesses the performance of the Chief Executive Officer against agreed upon targets and recommends his compensation to the Board. For all other officers, the committee approves the compensation levels. Together with the Chief Executive Officer, the committee reviews the performance of senior officers of the Corporation and makes compensation recommendations to the Board. Full terms of reference for the Human Resources Committee are available on the Corporation’s web site at [www.fraserpapers.com](http://www.fraserpapers.com) under “Corporate Governance”.

### ***Pension Committee***

The Pension Committee is responsible for overseeing the funding, investment management and administration of Fraser Papers’ employee retirement plans, as managed by the Corporation’s Pension Management Committee (consisting of senior finance and human resources executives). The Pension Committee approves the appointment of Pension Management Committee members, reviews and approves the appointment of outside firms engaged to support the investment and funding activities of the plans, reviews and approves funding objectives, assumptions and strategies in respect of Fraser Papers’ defined benefit plans and annually assesses the overall performance and regulatory compliance of Fraser Papers’ retirement plans. Full terms of reference for the Pension Committee are available on the Corporation’s web site at [www.fraserpapers.com](http://www.fraserpapers.com) under “Corporate Governance”.

### **Board Evaluation Systems**

The Board evaluates itself annually to ensure it is functioning effectively and in the best interests of the Corporation. The evaluation includes a detailed questionnaire completed by each director and one-on-one interviews with the Chair. The Chair reviews the results of the evaluation with the Corporate Governance and Nominating Committee and the Board. These evaluations assess the Board in four specific areas:

- 1) overall Board governance;
- 2) supervising and evaluating management;
- 3) strategy and company performance; and
- 4) Board effectiveness.

In 2005, this evaluation determined that the Board operates effectively.

In addition to the Board, each committee of the Board evaluates its performance annually. These evaluations focus on each committee's successes in meeting its terms of reference as well as its overall effectiveness as a committee. In 2005, each of the committees of the Board evaluated its performance as effective.

The performance of individual Board members is also reviewed by the other members of the Board. This review is conducted by the Chair and presented to the Corporate Governance and Nominating Committee for its consideration. The Corporate Governance and Nominating Committee has concluded that the assessment of Board members by their peers has validated each of them as having the skills, knowledge and commitment necessary and appropriate to function effectively as an individual director and as a member of the Board.

As part of the Board, committee and individual director evaluation processes, all opportunities to improve are implemented as identified.

### **Recruitment of Directors**

It is the responsibility of the Corporate Governance and Nominating Committee to oversee the recruitment of directors. In general, candidates for director should have an understanding of the workings of large business organizations and senior executive level experience. Of particular importance are candidates' character, integrity, judgement, independence, analytical skills and experience relevant to the Corporation's business and strategic challenges. Candidates are proposed by the Chair of the Board and other members of the Board from time to time. If necessary, the committee retains search firms for the recruitment of directors. The Chair of the Board and the CEO meet with candidates initially and provide a summary of their qualifications to the committee. The committee then reviews and assesses the qualifications of proposed candidates and submits the names of persons to be nominated to the Board.

### **Director Orientation and Continuing Education**

The Corporate Governance and Nominating Committee has established an orientation and continuing education program for directors to ensure they are equipped to fulfill their roles. New directors are provided with comprehensive information about the Corporation prior to their appointment that includes annual reports, management proxy circulars and the strategic plan. Within three months of becoming a director, new directors are invited to spend one day at the head office of the Corporation for personal briefings by senior management on the Corporation's strategic plan, major risks and other key business matters.

Informative updates by appropriate senior management and consultants on the Corporation's business, operations and products are regularly scheduled for presentation to directors to help them understand the Corporation's business environment, strategies and operations. In addition, all directors have the opportunity to meet and participate in work sessions with management to obtain further insight into the operations and business of the Corporation. Directors also receive and review materials on industry trends and regulatory updates from management and other sources on a regular basis.

Periodically, directors are invited to visit the operations of the Corporation at various locations to tour the facilities and to meet with employees and local dignitaries.

Directors are free to consult with members of management, whenever they so require, and to engage outside advisors with the Chair's authorization. Directors may participate in outside professional development programs approved by the Chair at the expense of the Corporation.

### **Change in Directors' Circumstances**

The terms of reference of the Board provide that directors must offer to resign if a relevant change in their personal circumstances has occurred that could impact their ability to effectively fulfill their role as a member of the Board, or if they have not attended at least 75% of the regularly scheduled Board and relevant committee meetings in the most recent 12 month period (see "Directors' Attendance Report for

Meetings Held in 2005" on page 6). The Board will evaluate the circumstances at the time, including the impact of the change on the composition of the Board, and will accept or reject the resignation.

### **Retirement of Directors**

In general, directors do not stand for election after their 70th birthday. However, in order to ensure appropriate director succession, the Board can retain up to three directors who are 70 years of age or older.

### **MANAGEMENT**

The primary responsibility of management is to create value for shareholders based on an approved business strategy and action plan. The Board is responsible for ensuring the performance of management is adequate and to bring about any management change that will enable Fraser Papers to perform satisfactorily. Fraser Papers' corporate governance principles are intended to encourage autonomy and effective decision-making by management while ensuring scrutiny by the Board and its committees.

The positions of Chair of the Board and Chief Executive Officer are separate, and are held by Robert J. Harding and Dominic Gammiero respectively. The Board has adopted written position descriptions for all Board positions, including the Chairs of each Board committee. These position descriptions are available on the Corporation's web site at [www.fraserpapers.com](http://www.fraserpapers.com) under "Corporate Governance". The following are the position descriptions for the Chair of the Board and the President and Chief Executive Officer.

### **Role of Chair of Board**

The Chair is generally responsible for managing the affairs of the Board. The responsibilities of the Chair include:

- a) ensuring that the functions identified in the terms of reference of the Board are being effectively carried out by the Board and its committees;
- b) presiding over all meetings of the Board ensuring that there is adequate time for discussion of relevant issues and for members of the Board to meet without the presence of management;
- c) ensuring that all directors receive the information required for the proper performance of their duties;
- d) ensuring that the appropriate committee structure is in place and assisting the Corporate Governance and Nominating Committee in recommending appointments to such committees;
- e) leading in the annual review of director, Board committees and Board performance and making recommendations for changes when appropriate; and
- f) working with the Chief Executive Officer and senior management to monitor progress on strategic planning, policy implementation and succession planning.

### **Role of President and Chief Executive Officer**

The President and Chief Executive Officer provides leadership of the Corporation and is generally responsible for managing the operation, organization and administration of the Corporation, subject to approved policies and direction by the Board. The responsibilities of the President and Chief Executive Officer include:

- a) presenting a strategic plan for the Corporation to the Board for approval, together with strategies to achieve the objectives of the plan, the risks and alternatives to these strategies and specific steps and performance indicators, which will enable the Board to evaluate progress on implementing such strategies;
- b) proposing to the Board for approval annual capital and operating plans that implement the Corporation's strategies, together with key financial and other performance goals for the Corporation's activities and reporting regularly to the Board on the progress against these goals;
- c) acting as the primary spokesperson for the Corporation to all its stakeholders;

- d) presenting to the Board for approval annually an assessment of the Corporation's management resources together with a succession plan that provides for the orderly succession of senior management, including the recruitment, training and development required;
- e) recommending to the Board the appointment or termination of any officer of the Corporation other than the Chairman;
- f) developing and implementing the systems and processes to support the policies established by the Board;
- g) together with the Corporation's Chief Financial Officer, establishing and maintaining disclosure controls and procedures and internal controls and procedures for financial reporting appropriate to ensure the accuracy and integrity of the Corporation's financial reporting and public disclosure; and
- h) fostering a corporate culture that promotes ethical practices and encourages individual integrity and social responsibility.

### **Management's Relationship to the Board**

The Corporation's senior management reports to and is accountable to the Board. One senior executive of the Corporation, Dominic Gammiero, is also a member of the Board. At its meetings, the Board regularly engages in a private session with Mr. Gammiero without other members of management present. The Board also meets independently of all management at every meeting.

### **Management Accountability**

The Board believes in the importance of developing strategic plans to ensure the compatibility of shareholder, Board and management views on the Corporation's strategic direction and performance targets, and the effective utilization of shareholder capital. Each year, the Board reviews the strategic initiatives and annual strategic plan submitted by senior management. The Board's approval of the annual strategic plan provides a mandate for senior management to conduct the affairs of the Corporation within the terms of the plan, knowing it has the necessary board support. Material deviations from the plan are reported to and considered by the Board.

### **Board and Committee Information**

The information provided by the Corporation's management to the Board is critical to the Board's effectiveness. In addition to reports presented to the Board and its committees at regular meetings, the Board is also informed on a timely basis by management of corporate developments and key decisions taken by management in pursuing Fraser Papers' strategic plan and objectives. The Board periodically assesses the quality, completeness and timeliness of information provided by management to the Board.

### **CODE OF BUSINESS CONDUCT**

The Board has adopted a written code of business conduct (the "Code") prescribing the minimum moral and ethical standards of conduct required of all directors, officers and employees of the Corporation and its subsidiaries. A copy of the Code can be found on the Corporation's website at [www.fraserpapers.com](http://www.fraserpapers.com) under "Corporate Governance".

The Corporation provides, on an annual basis, a copy of the Code to all directors, officers and employees. All directors, officers and salaried employees are required to sign an acknowledgment that they have received, read and understand the contents of the Code and agree to adherence to its principles.

The Corporate Governance and Nominating Committee is charged with reviewing the Code on an annual basis and recommending proposed changes to the Board for approval.

All employees are required to disclose in writing to their supervisors, all activities, investments or businesses that might create an actual or potential conflict of interest with their duties for the Corporation. Directors are to consult with the Chair of the Board with respect to potential conflicts and abstain from voting when such matter is before the Board for approval.

All violations of law or of the Code must also be reported. The Corporation has implemented a Whistle Blower Policy, allowing directors, officers and employees to report, in confidence, a violation of law or with the Code to the CEO or the Chair of the Audit Committee. Contact information can be found on the Corporation's website at [www.fraserpapers.com](http://www.fraserpapers.com).

#### **COMMUNICATION AND DISCLOSURE POLICIES**

The Corporation has adopted a Disclosure Policy that summarizes its policies and practices regarding disclosure of material information to investors, analysts and the media. The purpose of this policy is to ensure that the Corporation's communications with the investment community are timely, consistent and in compliance with all applicable securities legislation. The Disclosure Policy is reviewed annually by the Board and posted on the Corporation's web site at [www.fraserpapers.com](http://www.fraserpapers.com) under "Corporate Governance".

The Corporation endeavours to keep its shareholders informed of its progress through a comprehensive annual report, quarterly interim reports and periodic press releases. It also maintains a web site that provides summary information on the Corporation and ready access to its published reports, press releases, statutory filings and supplementary information provided to analysts and investors. Directors and management meet with the Corporation's shareholders at the Annual Meeting and are available to respond to questions at that time.

Shareholders who wish to contact the Chair or other Board members can do so directly or through the Chief Administrative Officer of the Corporation.

The Corporation's Whistle Blower Policy allows the Chair of the Audit Committee to receive any complaints or concerns relating to the Corporation's accounting practices, internal accounting controls or auditing matters directly from employees or others. The direct receipt by the Audit Chair allows him to handle these complaints in a confidential and timely manner. Contact information for the Chair of the Audit Committee is outlined in the Corporation's Code of Business Conduct that is reviewed annually and posted on the Corporation's web site at [www.fraserpapers.com](http://www.fraserpapers.com).

The Corporation also maintains an investor relations program to respond to inquiries in a timely manner. Management meets on a regular basis with investment analysts and financial advisors to ensure that accurate information is available to investors, including quarterly conference calls and web casts to discuss the Corporation's financial results. The Corporation also endeavours to ensure that the media are kept informed of developments as they occur, and have an opportunity to meet and discuss these developments with the Corporation's designated spokespersons.

## **PART SIX – OTHER INFORMATION**

#### **INDEBTEDNESS OF DIRECTORS, EXECUTIVES AND SENIOR OFFICERS**

As of the date of this Circular, there was no outstanding indebtedness (other than "routine indebtedness" under applicable Canadian securities and corporate laws) to the Corporation or its subsidiaries by all officers, directors, employees or former officers, directors or employees of the Corporation, or any associates of any such persons, made in connection with the purchase of securities of the Corporation or any of its subsidiaries.

#### **DIRECTORS' AND OFFICERS' LIABILITY INSURANCE**

The Corporation maintains directors and officers insurance with an annual limit of C\$50 million subject to a corporate deductible of C\$1 million per loss. Under this insurance coverage, the Corporation is reimbursed for indemnity payments made to directors or officers as required or permitted by law or under provisions of its by-laws. Such payments could be made to directors or officers to indemnify for losses, including legal costs, arising from acts, errors or omissions committed by directors and officers during the course of their duties as such. This insurance also provides coverage to individual directors and officers without any deductible if they are not indemnified by the Corporation. The insurance coverage for directors and officers has certain exclusions including, but not limited to, those acts determined to be

deliberately fraudulent or dishonest or have resulted in personal profit or advantage. The cost of such insurance is borne by the Corporation and is currently C\$42,500 annually.

#### **INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS**

During the second quarter of 2005, the Corporation exercised its option to acquire a cogeneration plant in New Hampshire from an affiliate of Brookfield for \$34 million. Prior to the acquisition, the Corporation 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 Corporation 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 Corporation repaid the \$75 million outstanding on the facility. The facility was then cancelled. In addition, Brookfield has provided the Corporation with a facility with a notional amount of \$150 million to enter into forward foreign exchange contracts as part of the Corporation's hedging activities. At December 31, 2005, the Corporation has entered into forward foreign exchange contracts of C\$70 million under this facility.

During 2005, the Corporation 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 Corporation 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 Corporation has invested \$10 million in convertible term preferred units of Katahdin Paper Company LLC ("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 Corporation (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 Corporation 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 Corporation's investment entitles it to regular cash distributions to the extent that Acadian declares them. The Corporation 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.

#### **SHAREHOLDER PROPOSALS FOR NEXT YEAR'S ANNUAL MEETING**

The *Canada Business Corporations Act* permits certain eligible shareholders of the Corporation to submit shareholder proposals to the Corporation, which proposals may be included in a management proxy circular relating to an Annual Meeting of Shareholders. Any shareholder proposal for the Corporation's Annual Meeting of Shareholders to be held in 2007 must be delivered to the Chief Administrative Officer of the Corporation at Suite 200, P.O. Box 762, BCE Place, 181 Bay Street, Toronto, Ontario M5J 2T3, no later than December 22, 2006.

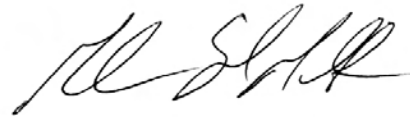
#### **AVAILABILITY OF DISCLOSURE DOCUMENTS**

Financial information relating to the Corporation is provided in the Corporation's comparative financial statements and management's discussion and analysis of financial condition and results of operations for the financial year ended December 31, 2005.

The Corporation will provide any person or company, upon request to the Chief Administrative Officer of the Corporation, with a copy of this Circular and: (i) the most recent annual information form of the Corporation, together with a copy of any document, or pertinent pages of any document, incorporated therein by reference; (ii) the comparative financial statements of the Corporation for the fiscal year ended December 31, 2005, together with the report of the auditors thereon; (iii) the most recent annual report of the Corporation, which includes management's discussion and analysis of financial condition and results of operations; and (iv) the interim financial statements of the Corporation for the periods subsequent to the end of its fiscal year. This information, along with other information relating to the Corporation, is also available on SEDAR at [www.sedar.com](http://www.sedar.com).

**DIRECTORS' APPROVAL**

The contents and sending of the Circular have been approved by the directors of the Corporation.

A handwritten signature in black ink, appearing to read 'Glen McMillan', written in a cursive style.

GLEN MCMILLAN  
*Senior Vice President  
and Chief Administrative Officer*

*Toronto, Canada*  
March 10, 2006



## SCHEDULE A

### BOARD OF DIRECTORS – TERMS OF REFERENCE

#### 1. ROLE OF THE BOARD

The role of the board of directors (the "Board") is to supervise the business and affairs of the Corporation, which are conducted by its officers and employees under the direction of the Chief Executive Officer ("CEO"), to enhance the long-term value of the Corporation for its shareholders. The Board is elected by the shareholders to oversee management to ensure that the best interests of the shareholders are advanced by enhancing shareholder value in a manner that recognizes the concerns of other stakeholders in the Corporation including its employees, suppliers, customers and the communities in which it operates.

#### 2. AUTHORITY AND RESPONSIBILITIES

The Board meets regularly to review reports by management on the performance of the Corporation. In addition to the general supervision of management, the Board performs the following functions:

- (a) **Strategic Planning** – overseeing the strategic planning process within the Corporation including, on an annual basis, reviewing, approving and monitoring the strategic plan for the Corporation and the fundamental financial and business strategies and objectives in the plan;
- (b) **Risk Assessment** – assessing the major risks facing the Corporation and reviewing, approving and monitoring the manner of managing those risks;
- (c) **CEO** – developing a position description for the CEO including the corporate objectives that the CEO is responsible for meeting and selecting, evaluating and compensating the CEO;
- (d) **Senior Management** – overseeing the selection, evaluation and compensation of senior management and monitoring succession planning;
- (e) **Disclosure and Communications** – overseeing the Corporation's public disclosure, communications and financial reporting including reviewing and monitoring the controls, policies and procedures within the Corporation to maintain its culture of integrity including its disclosure controls and procedures, its internal controls and procedures for financial reporting and compliance with its Code of Business Conduct and interaction with stakeholders;
- (f) **Communications from Stakeholders** – ensuring an appropriate system for receiving feedback from stakeholders is in place including the investor relations program; and
- (g) **Corporate Governance** – ensuring an appropriate system of corporate governance principles and guidelines is in place.

In addition to those matters that must, by law, be approved by the Board, specific Board approval must be obtained for:

- (i) any disposition or expenditure in excess of C\$3,000,000 and any cost overrun on any project in excess of 10% or C\$2,000,000, whichever is less;
- (ii) any loan agreement or guarantee for an amount in excess of C\$10,000,000; and
- (iii) any other material agreement or arrangement that is not in the ordinary course of business of the Corporation.
- (iv) changes in senior management at the Corporation.

#### 3. COMPOSITION AND PROCEDURES

- (a) **Size of Board and Selection Process** – The directors of the Corporation are elected each year by the shareholders at the annual meeting of shareholders. The Corporate Governance and Nominating Committee proposes to the full Board the nominees for election to the Board and the Board proposes a slate of nominees to the shareholders for election. Any shareholder may propose a nominee for election to the Board either by means of a shareholder proposal upon

compliance with the requirements prescribed by the *Canada Business Corporations Act* or at the annual meeting. The Board also determines the number of directors on the Board, subject to a minimum of eight and a maximum of 20. Between annual meetings, the Board may appoint directors to serve until the next annual meeting.

- (b) **Qualifications** – Directors should have the highest personal and professional ethics and values and be committed to advancing the best interests of the shareholders of the Corporation. They should possess skills and competencies in areas that are relevant to the Corporation's activities. A majority of the directors will be "independent" under applicable securities laws.
- (c) **Change in Circumstances** – Directors must offer to resign if there has been any change in their personal circumstances which may affect their ability to effectively fulfill their role as a member of the Board.
- (d) **Director Orientation and Continuing Education** – The Corporate Governance and Nominating Committee reviews the Corporation's Director Orientation and Continuing Education Program (the "Program") and makes recommendations to the Chief Administrative Officer, who is responsible for overseeing the Program. The Program is designed to ensure that directors are equipped to fulfill their roles.
- (e) **Meetings** – The Board has at least four scheduled meetings a year. The Board is responsible for its agenda. Prior to each Board meeting, the CEO will discuss agenda items for the meeting with the Chair of the Board. Materials for each meeting are distributed to the directors in advance and the directors are expected to review them prior to the meeting.

The independent directors have at least four scheduled meetings a year without management present. The directors shall appoint a "lead director" to chair these meetings.

Any director who has not attended at least 75% of the regularly scheduled Board and committee meetings in a 12 month period must offer to resign.

- (f) **Committees** – The Board has established the following standing committees to assist the Board in discharging its responsibilities – Audit, Corporate Governance and Nominating, Human Resources, Pension, and Environment Health and Safety. Special committees are established from time to time to assist the Board in connection with specific matters. The chair of each committee reports to the Board following meetings of the committee. The terms of reference of each standing committee are reviewed annually by the Board.
- (g) **Evaluation** – The corporate governance and nominating committee performs an annual evaluation of the effectiveness of the Board as a whole, the committees of the Board and the contributions of individual directors.
- (h) **Compensation** – The Corporate Governance and Nominating Committee recommends to the Board the compensation and benefits for non-management directors. In reviewing the adequacy and form of compensation and benefits, the committee seeks to ensure that the compensation and benefits reflect the responsibilities and risks involved in being a director of the Corporation and align the interests of the directors with the best interests of the shareholders.
- (i) **Access to Independent Advisors** – The Board and any committee may at any time retain outside financial, legal or other advisors at the expense of the Corporation. Any director may, subject to the approval of the Chair of the Board, retain an outside advisor at the expense of the Corporation.

## SCHEDULE B

### 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.

**Fraser**Papers