

# **Fraser**Papers

**Fraser Papers Inc.**

## **CIRCULAR**

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

**March 10, 2008**



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# FraserPapers

March 10, 2008

Dear Shareholder:

On behalf of the Board of Directors, I would like to invite you to attend Fraser Papers' fourth Annual Meeting of Shareholders at the Hockey Hall of Fame, Toronto, Ontario on Thursday, May 1, 2008 at 10:00 a.m. local time. At the Meeting, we will review the business and affairs of the Corporation and ask you to elect directors and appoint auditors for the coming year. We will also seek approval to increase the number of shares issuable under our Stock Option Plan.

Following the Meeting, you will have an opportunity to meet the directors and executives who will be pleased to answer your questions.

Along with the Notice of Meeting and Management Proxy Circular 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 in person, I encourage you to vote as soon as possible, either by telephone, proxy or via the Internet, and to follow the Meeting via the web cast, which can be accessed from our web site [www.fraserpapers.com](http://www.fraserpapers.com).

Yours truly,



Dominic Gammiero  
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 at the Hockey Hall of Fame, Brookfield Place, 30 Yonge Street, Toronto, Canada on **Thursday, May 1, 2008 at 10:00 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, 2007;
- 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;
- 4) to consider and, if thought advisable, to approve an amendment to the Corporation's Stock Option Plan to increase the aggregate number of Common Shares issuable from 2,750,000 to 5,000,000 (representing approximately 10% of the issued and outstanding Common Shares as of the date hereof); 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 CIBC Mellon Trust Company, Attention: Proxy Department, either: (i) by mail to P.O. Box 721, Agincourt, Ontario M1S 0A1; (ii) delivered in person to 320 Bay Street, Toronto, ON M5H 4A6; or (iii) by facsimile to 416-368-2502; not later than the close of business on Monday, April 28, 2008 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



MARINA MUELLER  
*Assistant Corporate Secretary*

*Toronto, Canada  
March 10, 2008*

# MANAGEMENT PROXY CIRCULAR

## PART ONE – VOTING INFORMATION

### SOLICITATION OF PROXIES

*This Management Proxy Circular (the “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, 2008, 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 CIBC Mellon Trust Company, Attention: Proxy Department, either: (i) by mail to P.O. Box 721, Agincourt, Ontario M1S 0A1; (ii) delivered in person to 320 Bay Street, Toronto, ON M5H 4A6; or (iii) by facsimile to 416-368-2502; not later than the close of business on Monday, April 28, 2008 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 CDS Clearing and Depository Services Inc., (the “Depository”) 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 (collectively, the “Meeting Materials”) to the Depository and Intermediaries for distribution to Non-Registered Holders. Those Non-Registered Holders who have so elected, will also receive the Corporation’s 2007 annual report (which includes Management’s Discussion and Analysis and the consolidated financial statements for the fiscal years ended December 31, 2006 and 2007).

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 of proxy and deposit it with Fraser Papers Inc. (see "Appointment of Proxies"). 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 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 that was given to an Intermediary at any time by written notice to the Intermediary, except that an Intermediary is not required to act on a revocation of a voting instruction form or of a waiver of the right to receive materials and to vote that is not received by the Intermediary at least seven days prior to the Meeting.

#### **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 contained in this Circular.

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, 2008, the Corporation had outstanding 50,166,789 fully paid and non-assessable Common Shares. Each registered holder of Common Shares of record at the close of business on Monday, March 10, 2008, 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").

#### **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").

Brookfield has advised the Corporation that it beneficially owns 35,374,937 Common Shares of the Corporation, either directly or through a wholly-owned subsidiary, representing approximately 70.5% 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, 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 shareholders are Partners Limited ("Partners") and BAM Investments Corp. which, together with the shareholders of Partners, directly and indirectly, collectively own, exercise control or direction over, or have options or warrants to acquire approximately 101 million Class A Limited Voting Shares of Brookfield, representing approximately 17% of the Class A Limited Voting Shares on a fully diluted basis, and 85,120 Class B Limited Voting Shares of Brookfield, representing all of the Class B Limited Voting Shares. Messrs. J.L. Cockwell, D. Gammiero, J.P. Gordon, R.J. Harding and S.J.B. Pollock, who are directors and/or officers 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, 2007, which are included in the Corporation's 2007 Annual Report, will be placed before the Shareholders at the Meeting. The Corporation's 2007 Annual Report is being mailed with this Circular to all registered holders of Common Shares, except to those who have elected not to receive it, and to Non-Registered Holders who have so requested. Additional copies of the 2007 Annual Report will be available at the Meeting. Alternatively, the 2007 Annual Report can be requested from the Corporation or accessed through the Corporation's web site at [www.fraserpapers.com](http://www.fraserpapers.com) or on SEDAR at [www.sedar.com](http://www.sedar.com).

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

Nine 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 nine 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 the names of the nine 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, along with the principal occupation or employment of each person, the year in which each person was first elected a director of the Corporation and the number of Common Shares owned and Deferred Share Units ("DSUs") and Options held by each person as at March 10, 2008.

All of the persons elected as members of the Board at the last Annual Meeting, held on April 25, 2007, are standing for re-election.

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**Rorke B. Bryan, Ph.D.**



Rorke Bryan, 68, has served as a director of Fraser Papers since May 2005. A resident of Toronto, Ontario, Dr. Bryan is the former Dean of the Faculty of Forestry and Professor of Environmental Sciences at the University of Toronto. 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: Association of University Forestry Schools of Canada; Forest Engineering Research Institute of Canada; and National Advisory Board on Forestry Research.

*Independent Director*

*Member of the Environment, Health and Safety Committee*

*21,634 DSUs*

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**Jack L. Cockwell, CA**



Jack Cockwell, 67, has served as a director of Fraser Papers since April 2004. A resident of Toronto, Ontario, 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 Brookfield Properties Corporation, Norbord Inc., Astral Media Inc., Waterfront Toronto and the C.D. Howe Institute and a Governor of Ryerson University and the Royal Ontario Museum.

*Independent Director*

*Chair of the Human Resources Committee*

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

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**Paul E. Gagné, CA**



Paul Gagné, 61, has served as a director of Fraser Papers since April 2004. A resident of Senneville, Québec, Mr. Gagné is Chairman of Wajax Income Fund, a distributor and service support provider of mobile equipment, industrial components and power systems. He is also a director of CAE Inc., Inmet Mining Corporation and Textron Inc. Mr. Gagné was a consultant in corporate strategic planning for Kruger Inc., a privately held producer of forest products, until 2002 and was President and Chief Executive Officer of Avenor Inc. until 1997.

*Independent Director*

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

*27,142 DSUs*

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**Dominic Gammiero**



Dominic Gammiero, 59, has served as a director of Fraser Papers since April 2004. A resident of Mississauga, Ontario, Mr. Gammiero is Chairman of the Corporation. He is also a director of Norbord Inc. and Western Forest Products Inc. Previously Mr. Gammiero was Chief Executive Officer of the Corporation from 2004 to 2007 and 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.

*Related Director*

*208,934 Common Shares<sup>(1)</sup>  
103,976 DSUs  
370,000 Options*

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**J. Peter Gordon**

Peter Gordon, 47, has served as a director of Fraser Papers since April 2007. A resident of Toronto, Ontario, Mr. Gordon is President and Chief Executive Officer of the Corporation. Previously he was Senior Vice President and Chief Financial Officer, from January to October 2006. Mr. Gordon was a Managing Partner of Brookfield, from 1998 to 2006, where he led various investment banking, merchant banking and restructuring initiatives. During the five year period prior to joining the Corporation, Mr. Gordon was co-manager of Brookfield's Tricap Restructuring Fund.

*Related Director*

see note<sup>(1)</sup>  
185,525 DSUs  
860,000 Options<sup>(2)</sup>

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**Robert J. Harding, FCA**

Robert Harding, 50, has served as a director of Fraser Papers since July 2004. A resident of Toronto, Ontario, Mr. Harding is Chairman of Brookfield. He is also a director of Norbord Inc., Western Forest Products Inc. and Atomic Energy of Canada Limited. Mr. Harding is Chairman of the Board of Governors of the University of Waterloo, Chair of Campaign Waterloo, Chair of the Board of Trustees of the United Way of Greater Toronto, and a member of the Board of Trustees of The Hospital for Sick Children and the Art Gallery of Ontario.

*Independent Director*

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

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

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**Aldéa Landry, C.M., Q.C.**

Aldéa Landry, 62, has served as a director of Fraser Papers since April 2004. A resident of Moncton, New Brunswick, 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, Moosehead Breweries Limited, the Canadian Foundation on Economic Education, the Canadian Investor Protection Fund and a member the Oxford Frozen Foods Advisory Board, the Security Information Review Committee and the Atlantic Provinces Economic Council. Ms. Landry is a former cabinet minister and deputy premier of New Brunswick.

*Independent Director*

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

1,000 Common Shares  
19,301 DSUs

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**Margot Northey, Ph.D.**

Margot Northey, 62, has served as a director of Fraser Papers since April 2004. A resident of Victoria, British Columbia, Dr. Northey is the former Dean of Queen's University School of Business which, during her tenure from 1995 to 2002, strengthened its reputation internationally for innovation and high quality, and increased revenues fourfold. An expert in management communications, she has published numerous articles, reports and books, including two best sellers, and has acted as consultant for private and public organizations from coast to coast. In addition to her role on the Fraser Papers Board, Dr. Northey is a director of Norbord Inc., Wawanesa Insurance and British Columbia Transmission Corporation.

*Independent Director*

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

7,468 Common Shares  
21,701 DSUs

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**Samuel J.B. Pollock, CA**

Samuel Pollock, 41, has served as a director of Fraser Papers since July 2004. A resident of Toronto, Ontario, Mr. Pollock is a Managing Partner of Brookfield and Co-CEO of Brookfield's infrastructure group. He is also a trustee of Acadian Timber Income Fund. Mr. Pollock has held various senior positions in Brookfield, including leadership of its financial advisory services and merchant banking operations, since 1994.

*Independent Director*

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

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

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- (1) Management understands that, in addition to the shares listed above, Messrs. Cockwell, Gammiero, Gordon, Harding and Pollock also own shares indirectly through their ownership of Brookfield common shares. These indirect ownership interests exceed the minimum investment requirements for directors as set out under "Compensation and Share Ownership".
  - (2) Includes 2008 grant of 425,000 Options, which are subject to receipt of shareholder approval of an increase in the number of shares issuable under the Stock Option Plan.

**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, 2007.

<i>Director</i>	<i>Name of Corporation</i>
Jack L. Cockwell Robert J. Harding	Brookfield Asset Management Inc.
Jack L. Cockwell Dominic Gammiero Robert J. Harding Margot Northey	Norbord Inc.
Dominic Gammiero Robert J. Harding	Western Forest Products Inc.

**Directors' Attendance Report for Meetings Held in 2007**

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. Directors are invited to attend all committee meetings.

During 2007 the Board held 11 meetings and its five standing committees held 13 meetings. These included five regularly scheduled meetings of the Board and six meetings of the Board that were called to deal with specific items of business. Committee meetings included six meetings of the Audit Committee, four meetings of the Environment Health and Safety Committee, and one meeting of each of the Corporate Governance and Nominating Committee, Human Resources Committee and the Pension Committee.

Each director attended all Board meetings and committee meetings (for committees of which they were a member) except for Dr. Bryan and Mr. Gammiero who each missed one Board meeting, Mr. Gagné and Dr. Northey who each missed two Board meetings, Mr. Harding who missed three Board meetings and Mr. Pollock, who missed four Board meetings and one meeting of the Pension Committee.

In February of 2006, a special committee of the Board (the "Katahdin Special Committee") was established to evaluate the potential acquisition of Katahdin Paper Company LLC ("Katahdin") from Brookfield. The Katahdin Special Committee comprised four directors, who are unrelated to Brookfield and who are independent under the standards established by Canadian securities regulatory authorities in National Instrument 58-101 – Disclosure of Corporate Governance Practices, OSC Rule 61-501 – Insider Bids, Issuers Bids, Business Combinations and Related Party Transactions ("Rule 61-501") and Regulation Q-27 Respecting Protection of Minority Securityholders in the Course of Certain Transactions ("Regulation Q-27") of the Autorité des marchés financiers du Québec. The Katahdin Special Committee

held six meetings during 2007. The members of the Katahdin Special Committee were Rorke Bryan, Paul Gagné (Chair), Aldéa Landry and Margot Northey. All members attended each of the meetings of the Katahdin Special Committee, except Dr. Bryan, who missed 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 (the “non-management directors”) may elect to take a portion of their directors’ fees in the form of DSUs, which are credited at the fair market value of Fraser Papers Common Shares on the valuation date immediately following the date on which directors fees are payable. Following termination of Board service by a director, DSUs are redeemed for cash based on the fair market value of the Common Shares.

### Compensation and Share Ownership

In 2007 non-management directors were each entitled to receive an annual retainer of C\$40,000. The Chair of the Audit Committee received an additional annual retainer of C\$5,000 and the Chairs of all other Board committees each received 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. Members of the Katahdin Special Committee each received fees of C\$22,500 and the Chair of the Katahdin Special Committee received fees of C\$25,500. During 2005 a special committee was established (the “Acadian Special Committee”) to evaluate the sale of the Corporation’s Canadian timberlands business to Acadian Timber Income Fund (“Acadian”). Members of the Acadian Special Committee each received C\$17,500 and the Chair of the Acadian Special Committee received fees of C\$20,000.

The following table below shows the actual fees paid to directors in 2007 and the percentage of fees taken in the form of DSUs.

Name	Board Annual Retainer (C\$)	Committee Chair Annual Retainer (C\$)	Special Committee Fees (C\$)	Total Payable (C\$)	% Taken in DSUs	Total Fees Credited in DSUs (# of DSUs)
Rorke B. Bryan	\$40,000	—	\$1,500	\$41,500	100%	9,644
Jack L. Cockwell <sup>(1)</sup>	\$40,000	\$3,000	—	\$43,000	N/A	N/A
Paul E. Gagné	\$40,000	\$5,000	\$1,500	\$46,500	N/A	10,819
Dominic Gammiero <sup>(2)</sup>	N/A	—	—	N/A	N/A	N/A
J. Peter Gordon <sup>(2)</sup>	N/A	—	—	N/A	N/A	N/A
Robert J. Harding <sup>(1)</sup>	\$40,000	\$3,000	—	\$43,000	N/A	N/A
Aldéa Landry	\$40,000	\$3,000	\$1,500	\$44,500	100%	10,349
Margot Northey	\$40,000	\$3,000	\$1,500	\$44,500	100%	10,349
Samuel J.B. Pollock <sup>(1)</sup>	\$40,000	—	—	\$40,000	N/A	N/A

(1) Messrs. Cockwell, Harding and Pollock, as representatives of Brookfield, received no compensation for their roles on the Board and its committees. An aggregate payment of C\$126,000 was made to Brookfield for their services.

(2) Messrs. Gammiero and Gordon, as representatives of senior management, received no compensation for their roles on the Board.

In February of 2008, the Corporate Governance and Nominating Committee benchmarked its director’s compensation to determine whether the Corporation’s director’s fees are competitive. Director compensation was compared to a number of other Canadian manufacturing companies and considered in the context of certain factors, including the time commitments required from directors, and alignment of directors’ interests with those of shareholders. The committee determined that the overall compensation for the Corporation’s directors was below the peer median and approved revised compensation levels for directors. Starting in 2008, each non-management director will be entitled to receive an annual retainer of C\$55,000. The Chair of the Audit Committee will receive an additional annual retainer of C\$15,000 and the Chairs of all other Board committees will each receive an additional annual retainer of C\$5,000. There will be no fees payable for meeting attendance or committee membership.

The Board believes that directors can better represent the Corporation's Shareholders if they are Shareholders themselves. Accordingly, the Board requires all directors to invest at least three times their annual retainer (C\$165,000) in Common Shares or DSUs of the Corporation. This minimum investment, which can be directly or indirectly held, 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 DSUs until the minimum investment is achieved. As at March 10, 2008, six of the nine directors had reached their minimum investment requirements. Based on certain directors' elections, it is anticipated that eight of the nine directors will have met their minimum investment requirements by the end of 2008.

Directors are reimbursed for travel and other out-of-pocket expenses incurred in attending Board or committee meetings. During 2007, four non-management directors received approximately C\$33,100 of reimbursement for such expenses.

### 3. APPOINTMENT OF AUDITORS

At the Board meeting held on February 5, 2008, 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 on 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 LLP, 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, 2007 by Ernst & Young amounted to approximately \$857,000. 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.

	<i>Fees Paid</i>	
	<i>2007</i>	<i>2006</i>
Audit services	\$561,000	\$535,000
Audit-related services	280,000	184,000
Taxation services	—	10,000
Other non-audit services	16,000	15,000
<b>Total for all services</b>	<b>\$857,000</b>	<b>\$744,000</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 other audit procedures.

*Taxation services* consist of tax compliance services.

*Other non-audit services* consist of translation services.

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 – STOCK OPTION PLAN AMENDMENT**

The Stock Option Plan (“SOP”) permits the granting of Options in accordance with the terms of the SOP to eligible participants to purchase up to a maximum of 2,750,000 Common Shares (representing approximately 5% of the issued and outstanding Common Shares as of the date hereof), which have been reserved for issuance under the SOP. As of March 10, 2008, all available Options to purchase Common Shares have been granted to eligible participants and are outstanding. No Common Shares have been issued pursuant to the exercise of Options.

The Board recommends that the aggregate number of Common Shares issuable under the SOP be increased from 2,750,000 to 5,000,000 (representing approximately 10% of the issued and outstanding Common Shares as of the date hereof). All outstanding Options which have been previously granted pursuant to the SOP prior to the Meeting shall count toward the maximum aggregate number of Common Shares issuable under the SOP. Mr. Peter Gordon, President and Chief Executive Officer of the Corporation, received Options to purchase 425,000 shares at C\$3.10 per share effective February 8, 2008, subject to receipt of shareholder approval of the increase in the number of shares issuable under the SOP.

The proposed amendment to increase the number of Common Shares issuable under the SOP has been conditionally accepted by the Toronto Stock Exchange (the “TSX”), subject to shareholder approval.

Pursuant to the SOP, the number of Common Shares issuable to insiders, at any time, pursuant to the SOP and any other securities based compensation arrangement of the Corporation, may not exceed 10% of the issued and outstanding Common Shares. In addition, the number of Common Shares actually issued to insiders, within any one year period, pursuant to the SOP and any other securities based compensation arrangement, also cannot exceed 10% of the issued and outstanding Common Shares. The exercise price for an Option is equal to the closing price per share of a board lot of the Common Shares on the TSX (as the Corporation’s principal stock exchange) on the date of grant, or if such date occurs during one of the Corporation’s black out periods, on the first trading day immediately following the expiration of the black-out period).

The SOP does not prescribe the period during which Options may be exercisable, except that it provides for immediate termination of an Option in the event of the termination of employment of a participant for cause or as a result of a resignation (other than resignation for retirement or sickness or disability), six months following the death of a participant or as may be fixed by the Board. Under the current terms of the option agreement, the Option may be exercised for up to 10 years, subject to vesting at the annual rate of 20% per year beginning on the first anniversary of the date of grant (see “Part Five – Report on Executive Compensation – Long-Term Incentives”).

Unless an Option agreement provides otherwise, Options may be assigned to certain permitted assigns of the participant, including a holding entity of a participant, a spouse of a participant, an RRSP or RRIF of a participant or the participant’s spouse, and certain trusts for the benefit of the participant or the participant’s spouse.

Except as provided in the following sentence, the Board may amend the SOP as it considers necessary or desirable for the purposes of the Corporation. Approval of Shareholders is required in respect of any amendment to the SOP that would: (i) increase the maximum number of Common Shares issuable under the SOP (other than on a corporate reorganization); (ii) reduce the exercise price of Options to less than the market price of Common Shares on the date of the Option grant; (iii) reduce the exercise price of Options for the benefit of an insider of the Corporation; (iv) extend the expiry date of Options for the benefit of an insider of the Corporation; (v) increase the maximum number of Common Shares issuable to insiders of the Corporation under the SOP; or (vi) amend any of the limitations set out in (i) to (v).

The Stock Option Plan Resolution, a copy of which is attached as Schedule B to this Circular, must be passed by the majority of the votes cast thereon.

***Unless the shareholder has specified in the enclosed form of proxy that the shares represented by such proxy are to be voted against the Stock Option Plan Resolution, on any ballot that may be called for the approval of the Stock Option Plan Resolution, the management representatives designated in the enclosed form of proxy intend to vote such shares in favour of the Stock Option Plan Resolution.***

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

The Audit Committee of the Board is comprised of three directors. As of the date of this Circular, the members of the Audit Committee are: Paul Gagné (Chair), Aldéa Landry and Margot Northey, each being an independent director. Each of Mr. Gagné and Mmes. Landry and Northey are 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 Six of this Circular. The Audit Committee held six meetings during 2007. A written copy of its terms of reference is available in the Corporation's Annual Information Form dated March 27, 2007, which can be found at [www.sedar.com](http://www.sedar.com) or on the Corporation's web site at [www.fraserpapers.com](http://www.fraserpapers.com).

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 2007, is responsible for expressing an opinion on the preparation of the Corporation's audited financial statements in accordance with generally accepted accounting principles. The Audit 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, 2007. The Audit Committee also recommended to the Board, subject to shareholder approval, that Ernst & Young be appointed as independent auditors for the Corporation in 2008.

This report has been prepared by the Audit Committee:

P.E. Gagné – Chair

A. Landry

M. Northey

#### **PART FIVE – REPORT ON EXECUTIVE COMPENSATION**

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

##### **COMPOSITION AND MANDATE OF THE HUMAN RESOURCES COMMITTEE**

The Corporation's executive compensation program is administered by the Human Resources Committee of the Board ("HR Committee"). As part of its mandate, the HR Committee administers the appointment and remuneration of the Corporation's officers, including annual evaluation of the performance of each of Chief Executive Officer, the Chief Financial Officer and the three other highest paid executive officers (collectively, the "Named Executive Officers"). Compensation recommendations for the Chief Executive Officer must be approved by the Board, and for all other officers, the HR Committee approves compensation levels. The HR 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 HR Committee is comprised of Jack Cockwell (Chair), Paul Gagné and Margot Northey. Each member of the HR 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 HR 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. The HR Committee met once during 2007.

Mr. Gordon, Chief Executive Officer of the Corporation, is not a member of the HR Committee. He makes recommendations to the HR Committee with respect to executive compensation policy and with respect to the compensation paid to senior officers of the Corporation, other than himself. Mr. Gordon did not participate in HR 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 HR Committee believes that senior executive incentive compensation should be driven primarily by performance relative to the established plans and strategy of the business. The HR 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 weighted to variable compensation tied to the Corporation's performance for the most senior executives. 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.

#### **Share Ownership Guidelines**

The Board adopted share ownership guidelines to foster long-term share holdings by the Corporation's executives. These guidelines create a strong link between shareholders' and management's interests. The Board requires each Named Executive Officer to invest at least one times his salary, except for Mr. Gordon, who is required to invest two times his salary, in Common Shares or DSUs of the Corporation. Named Executive Officers have up to five years to invest the minimum required. As at March 10, 2008, five of the six Named Executive Officers had reached their minimum requirement.

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, 2008, as well as the number of DSUs held by the executive at that date:

	Common Shares Held (#)	Deferred Share Units Held (#)		Total (#)
		Vested	Unvested	
Dominic Gammiero	177,203	71,575	32,401	281,179
Peter Gordon	—	61,842	123,683	185,525
William Manzer	—	19,259	12,620	31,879
Brian McAlary	—	16,299	7,691	23,990
Glen McMillan	2,150	33,833	8,262	44,245
Jeffrey Dutton	—	1,567	3,133	4,700

The Corporation retains the services of external consultants, including Towers Perrin Inc. in the most recent fiscal year, to provide advice for executive compensation arrangements. The scope of services includes competitiveness reviews of executive compensation levels to assist the HR 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 HR Committee's approach to each are as follows:

## **Base Salaries**

Base salaries of the Corporation's executives are reviewed and approved 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 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**

In 2005, the Board approved the establishment of the Annual Incentive Plan ("AIP"). The AIP provides an annual incentive opportunity to the Named Executive Officers and all other exempt salaried employees. The AIP is designed to encourage the Named Executive Officers and other eligible employees to increase the performance of the Corporation through annual incentive bonuses. In 2007, the AIP design was amended to focus on the achievement of measurable strategic business objectives. For 2007 the AIP was based on two components – business unit performance and individual performance. The business unit factor was based on key performance indicators established at the beginning of the fiscal year for each business unit. The factor for individual performance was based on the achievement of a participant's individual goals and objectives. The amounts actually received by participants is dependent on the extent of achievement of such performance objectives. 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 AIP awards in the form of DSUs, as described below (see "Long-Term Incentives").

Mr. Gordon's direct reports, as of December 31, 2007 were not awarded an annual incentive in respect of 2007 performance as overall financial performance goals for the Corporation were not met.

In February of 2008, the HR Committee determined that the 2008 incentive awards for the Named Executive Officers will be based on three factors:

- 1) one-third on individual performance measured against established objectives;
- 2) one-third on corporate performance based on the achievement of EBITDA (earnings before interest, taxes, depreciation and amortization); and
- 3) one-third at the discretion of the Chief Executive Officer and HR Committee.

## **Long-Term Incentives**

The HR Committee believes it is important that the interests of senior management be aligned with the interests 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 an alignment 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 value over the long term.

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

### Stock Option Plan

The Corporation's SOP, adopted in 2004, was amended by the Board on February 6, 2007 and received shareholder approval on April 25, 2007. The SOP is administered by the HR Committee in accordance with the Corporation's compensation policies and the policies of the TSX. The number of Common Shares issuable to insiders of the Corporation, within any one year period, under the SOP and any other securities-based compensation arrangement of the Corporation, cannot exceed 10% of the issued and outstanding Common Shares.

To determine the size of grants, the HR Committee takes into consideration competitive market practices among Canadian forest industry firms and a wider grouping of industrial companies. The Option price is the market price on the date of grant and is determined by the closing price per share of a board lot of the Fraser Papers Common Shares traded on the TSX on the date of the grant, provided that if such date is

during a blackout trading period, the closing price will be as of the first trading day immediately following the expiration of the blackout period. 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 are subject to vesting requirements. Under the current terms of the Option agreement, the Option may be exercised for up to 10 years, subject to vesting at the annual rate of 20% per year beginning on the first anniversary of the date of grant. Unless otherwise determined by the HR Committee, an Option will expire immediately in the event of resignation or termination of employment for cause, and within six months after the death of an optionholder. The maximum Common Shares currently issuable under the SOP are not to exceed 2,750,000.

To further align management's interests, Named Executive Officers are required, on the exercise of an Option, to hold for a minimum of one year, Fraser Papers Common Shares with a minimum value equivalent to the after-tax gain realized through the exercise of the Option.

On February 6, 2007, Options to purchase a total of 1,015,000 shares were granted to 15 executives and senior managers effective February 15, 2007 at the market price of C\$5.99 per share.

On February 5, 2008, Options to purchase a total of 870,000 shares were granted to seven executives effective February 8, 2008, at the market price of C\$3.10 per share. In addition, Mr. Gordon received Options to purchase 425,000 shares at C\$3.10 per share effective February 8, 2008, subject to receipt of shareholder approval of an increase in the number of shares issuable under the SOP.

#### Amendments to Stock Option Plan

On February 5, 2008 the Board approved an amendment to increase the maximum number of Common Shares issuable under the SOP from 2,750,000 to 5,000,000, subject to shareholder approval as described herein under "Part Three – Stock Option Plan Amendment".

The Stock Option Plan Resolution, attached hereto as Schedule B, must be passed by a majority of the votes casts thereon by the shareholders at the Meeting.

#### Deferred Share Unit Plan

A Management Deferred Share Unit Plan has been in place since 2004. The Deferred Share Unit Plan is designed to focus the attention of the executives on the long-term interests of the Corporation and growth in shareholder value. 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 DSUs. Executives must make an irrevocable election to take part in the Management Deferred Share Unit Plan prior to the beginning of the fiscal year. One DSU has a value equivalent to one Common Share of the Corporation. The vesting period for the DSUs is determined by the Board. DSUs can only be redeemed for cash after cessation of employment with the Corporation. DSUs are allocated based on the closing price of the Common Shares on the award date, provided that if such date is during a blackout trading period, the closing price will be as of the first trading day immediately following the expiration of the blackout period.

#### **Compensation of Chief Executive Officer**

Mr. Gordon was appointed Chief Executive Officer of the Corporation on April 25, 2007. Mr. Gordon'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. Gordon'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 2007, Mr. Gordon 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 fulfillment of established corporate and individual performance criteria. These individual performance criteria include:

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

Mr. Gordon's performance, as well as the performance of the Corporation's senior executive team, is assessed each year in relation to the achievement of predetermined corporate and individual objectives. In February 2008, Mr. Gordon was not awarded an annual incentive in respect of 2007 performance as overall financial performance goals were not met. The HR Committee's assessment of Mr. Gordon's performance in 2007 included the following:

- continued improvement in safety and environmental performance including a 10% improvement in the OSHA frequency company-wide;
- growth in strategic packaging and specialty groundwood grades;
- completion of critical operational initiatives to improve the Corporation's long term competitive positioning including a rationalization of 70,000 tons of highest cost freesheet capacity and significant energy projects;
- strengthening the senior management team by attracting and retaining individuals with sufficient skills and ability to execute the Corporation's business plans; and
- strengthening the Corporation's balance sheet by reducing debt through the sale of the Corporation's interest in Acadian and arranging for additional \$60 million equity through a rights offering to shareholders.

On February 5, 2008 the Board approved the grant of Options to Mr. Gordon to purchase 425,000 Common Shares at a price of \$3.10 per share, the closing price of a share on February 8, 2008, the day following expiry of the blackout period. The Options granted to Mr. Gordon in February 2008 are subject to receipt of shareholder approval of an increase in the number of shares issuable under the SOP. The award to Mr. Gordon under the SOP is consistent with the philosophy of the Corporation, which is to tie a significant portion of the Chief Executive Officer's compensation to corporate performance and the achievement of growth in shareholder value.

This report has been prepared by the HR Committee:

J.L. Cockwell – Chair

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 subsidiaries in respect of each of the Named Executive Officers for services rendered during the financial years ended December 31, 2007, 2006, and 2005.

Name and Principal Position	Year	Annual Compensation					Shares Under Options Granted (#)	All Other Compensation (\$)
		Salary (\$)	Annual Incentive Received in Cash (\$)	Deferred Share Units <sup>(7)</sup> (#)	Other Annual Compensation <sup>(8)</sup> (\$)			
Dominic Gammiero <sup>(1)</sup> Chairman	2007	C\$246,623	—	—	—	70,000	C\$10,500	
	2006	C\$425,000	—	35,714	—	200,000	C\$15,750	
	2005	C\$425,000	—	25,773	—	—	C\$15,750	
Peter Gordon <sup>(2)</sup> President and Chief Executive Officer	2007	C\$323,077	—	—	—	375,000	C\$15,750	
	2006	C\$300,000	—	185,525	—	60,000	C\$15,750	
	2005	—	—	—	—	—	—	
William Manzer <sup>(3)</sup> SVP, Business Strategy and Projects	2007	\$270,000	—	—	—	90,000	\$13,292	
	2006	\$268,446	—	14,806	—	60,000	\$13,112	
	2005	\$262,176	—	8,247	—	—	\$39,010	
Brian McAlary <sup>(4)</sup> VP, Sales and Marketing	2007	\$222,500	—	—	\$5,589	90,000	\$12,427	
	2006	\$213,750	—	9,474	\$5,589	35,000	\$21,361	
	2005	\$210,000	—	4,124	\$5,589	20,000	\$60,988	
Glen McMillan <sup>(5)</sup> SVP and Chief Financial Officer	2007	C\$223,462	—	—	—	90,000	C\$15,642	
	2006	C\$204,297	—	8,269	—	35,000	C\$14,301	
	2005	C\$198,788	—	8,247	—	—	C\$15,750	
Jeffrey Dutton <sup>(6)</sup> SVP, Operations and Chief Operating Officer	2007	\$183,375	\$20,756	—	—	50,000	\$13,847	
	2006	\$103,731	\$5,925	4,700	—	—	\$56,843	
	2005	—	—	—	—	—	—	

- (1) Mr. Gammiero was appointed Chairman of the Board on April 25, 2007. Prior thereto he held the position of Chief Executive Officer of Fraser Papers. 2007 "Salary" includes C\$139,596 paid to him for his service as Chief Executive Officer and \$C107,027 in respect of his position as Chairman. Mr. Gammiero elected to take 25,773 DSUs at C\$9.70 per unit, representing 100% of his annual incentive of C\$250,000 in 2005. Mr. Gammiero elected to take 35,714 DSUs at C\$5.95 per unit, representing 100% of his annual incentive of C\$212,500 in 2006. "All Other Compensation" represents the contribution by the Corporation in respect of the defined contribution pension plan.
- (2) Mr. Gordon was appointed Chief Executive Officer of Fraser Papers on April 25, 2007 and has held the position of President of Fraser Papers since October 27, 2006. Prior thereto he was Senior Vice President and Chief Financial Officer of Fraser Papers since January 2006. Mr. Gordon elected to take 25,210 DSUs at C\$5.95 per unit, representing 100% of his annual incentive of C\$150,000 in 2006. DSUs in 2006 include an additional issuance of 160,315 units at C\$7.61 per unit. "All Other Compensation" represents the contribution by the Corporation in respect of the defined contribution pension plan.
- (3) Mr. Manzer was appointed Senior Vice President, Business Strategy and Projects of Fraser Papers on March 3, 2008. Prior thereto he held the position of Senior Vice President, Pulp and Paper Operations of Fraser Papers from February 7, 2006 and was Vice President, Operations of Fraser Papers Limited, a subsidiary of the Corporation prior thereto. Mr. Manzer elected to take 8,247 DSUs at C\$9.70 per unit, representing 100% of his annual incentive of C\$80,000 in 2005. Mr. Manzer elected to take 14,806 DSUs at C\$5.95 per unit, representing 100% of his annual incentive of C\$88,097 in 2006. "All Other Compensation" represents the matching contribution by the Corporation to Mr. Manzer's 401(k) savings plan, deferred compensation plan and relocation amounts reimbursed.
- (4) Mr. McAlary was appointed Vice President Sales and Marketing of Fraser Papers on April 25, 2007. Prior thereto he held the position of Vice President, Sales of Fraser Papers Limited. Mr. McAlary elected to take 4,124 DSUs at C\$9.70 per unit, representing 100% of his annual incentive of C\$40,000 in 2005. Mr. McAlary elected to take 9,474 DSUs at C\$5.95 per unit, representing 100% of his annual incentive of C\$56,371 in 2006. "All Other Compensation" represents the matching contribution by the Corporation to Mr. McAlary's 401(k) savings plan, deferred compensation plan and relocation amounts reimbursed.
- (5) Mr. McMillan was appointed Chief Financial Officer of Fraser Papers on April 25, 2007. Prior thereto he held the position of Senior Vice President and Chief Administrative Officer of Fraser Papers. Mr. McMillan elected to take 8,247 DSUs at C\$9.70 per unit, representing 100% of his annual incentive of C\$80,000 in 2005. Mr. McMillan elected to take 8,269 DSUs at C\$5.95 per unit, representing 100% of his annual incentive of C\$49,200 in 2006. "All Other Compensation" represents the contribution by the Corporation in respect of the defined contribution pension plan.
- (6) Mr. Dutton was appointed Senior Vice President, Operations and Chief Operating Officer of Fraser Papers on March 3, 2008. Prior thereto he held the position of General Manager, East Papers of Fraser Papers Limited since June 5, 2006. Mr. Dutton elected to take 4,700 DSUs at C\$5.95 per unit, representing 80% of his annual incentive of C\$27,967 in 2006. "All Other Compensation" represents contributions by the Corporation to Mr. Dutton's 401(k) savings plan and relocation amounts reimbursed.
- (7) The DSUs 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.
- (8) No amounts are shown in this column for the value of perquisites and benefits as they did not exceed the lesser of \$50,000 and 10% of the total annual salary and bonus for any of the Named Executive Officers. The amounts quoted in this column for Mr. McAlary represent the dollar value of imputed interest benefits relating to a housing loan.

## STOCK OPTIONS

The following table sets forth individual grants of Stock Options under the SOP during the financial year ended December 31, 2007 to the Named Executive Officers. These Options were granted effective February 15, 2007.

### Option Grants During the Financial Year Ended December 31, 2007

	<i>Securities Under Options Granted<sup>(1)</sup></i>	<i>% of Total Options Granted to Employees in 2007</i>	<i>Exercise Price per Option (C\$/Share)</i>	<i>Market Value of Shares Underlying Options on the Date of Grant (C\$/Share)</i>	<i>ExpirationDate</i>
Dominic Gammiero	70,000	7%	\$5.99	\$5.99	February 15, 2017
Peter Gordon	375,000	37%	\$5.99	\$5.99	February 15, 2017
William Manzer	90,000	9%	\$5.99	\$5.99	February 15, 2017
Brian McAlary	90,000	9%	\$5.99	\$5.99	February 15, 2017
Glen McMillan	90,000	9%	\$5.99	\$5.99	February 15, 2017
Jeffrey Dutton	50,000	5%	\$5.99	\$5.99	February 15, 2017

(1) All Options were granted under the SOP and entitle each Named Executive Officer to purchase Common Shares of the Corporation. All Options vest at the annual rate of 20% per year, beginning on the first anniversary of the date of grant. The HR 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.

The following table sets forth details of each exercise of Stock Options during the financial year ended December 31, 2007 by the Named Executive Officers and the financial year-end value of unexercised Options on an aggregate basis.

### Aggregate Option Exercises During the Financial Year Ended December 31, 2007 and Financial Year-End Option Values

	<i>Shares Acquired on Exercise (#)</i>	<i>Aggregate Value Realized<sup>(1)</sup> (C \$)</i>	<i>Unexercised Options at Period End</i>		<i>Value of Unexercised "In the Money" Options at Period End<sup>(2)</sup></i>	
			<i>Exercisable (#)</i>	<i>Non-exercisable (#)</i>	<i>Exercisable (C\$)</i>	<i>Non-exercisable (C\$)</i>
Dominic Gammiero	0	0	100,000	270,000	0	0
Peter Gordon	0	0	12,000	423,000	0	0
William Manzer	0	0	24,000	146,000	0	0
Brian McAlary	0	0	15,000	130,000	0	0
Glen McMillan	0	0	19,000	126,000	0	0
Jeffrey Dutton	0	0	—	50,000	0	0

(1) Determined on basis of market value at date of exercise.

(2) The closing price of Fraser Papers Common Shares on the TSX on December 31, 2007 was C\$2.68.

### Securities Authorized for Issuance Under Equity Compensation Plans During the Financial Year Ended December 31, 2007

<i>Plan Category</i>	<i>Number of Securities to be issued upon exercise of outstanding options, warrants and rights (a)</i>	<i>Weighted-average exercise price of outstanding options, warrants and rights (b)</i>	<i>Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)</i>
Fraser Papers Stock Option Plan	1,630,000	\$7.89	1,120,000
Total	1,630,000	\$7.89	1,120,000

## PENSION AND RETIREMENT BENEFITS

Effective January 1, 2005 Messrs. Gammiero and McMillan became participants in the Fraser Papers Inc. Defined Contribution Pension Plan (the "Fraser DC Plan") established for Canadian salaried employees of Fraser Papers. Effective January 3, 2006 Mr. Gordon became a participant in the Fraser DC Plan. 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. Pension benefits that exceed the Canada Revenue Agency allowable limits are paid from a Supplementary Employee Retirement Plan (the "SERP"). 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. This maximum is reviewed periodically. In 2007, the Corporation's total contributions to the Fraser DC Plan for Messrs. Gammiero, Gordon, and McMillan were C\$10,500, C\$15,750 and C\$15,642 respectively.

Messrs. Manzer and McAlary participate in the Pension Equity Plan (the "PEP") and the Supplemental Executive Retirement Plan. To limit the Corporation's retirement benefit liability to employees, the maximum pensionable earnings has been set at \$225,000. The following table shows the service cost and accrued liability for 2007 as well as the estimated annual benefit payable at normal retirement date for each of the Named Executive Officers participating in the defined benefit Pension Equity Plan and the Supplemental Executive Retirement Plan.

<i>Name</i>	<i>Accrued Liability at December 31, 2006</i>	<i>Service Cost for 2007</i>	<i>Interest Cost</i>	<i>Accrued Liability at December 31, 2007</i>	<i>Years of Accredited Service at December 31, 2007</i>	<i>Estimated Annual Benefit Payable at Normal Retirement Date</i>	<i>Years of Accredited Service at Normal Retirement Date</i>
William Manzer <sup>(1)</sup>	\$293,000	\$46,000	\$19,000	\$333,000	7	\$118,000	22
Brian McAlary <sup>(2)</sup>	\$257,000	\$13,000	\$16,000	\$261,000	20	\$107,000	42

(1) Mr. Manzer also participates in the Fraser Papers 401(k) Retirement Savings Plan. In 2007, the Corporation's total matching contribution to the 401(k) Retirement Savings Plan for Mr. Manzer was \$8,100.

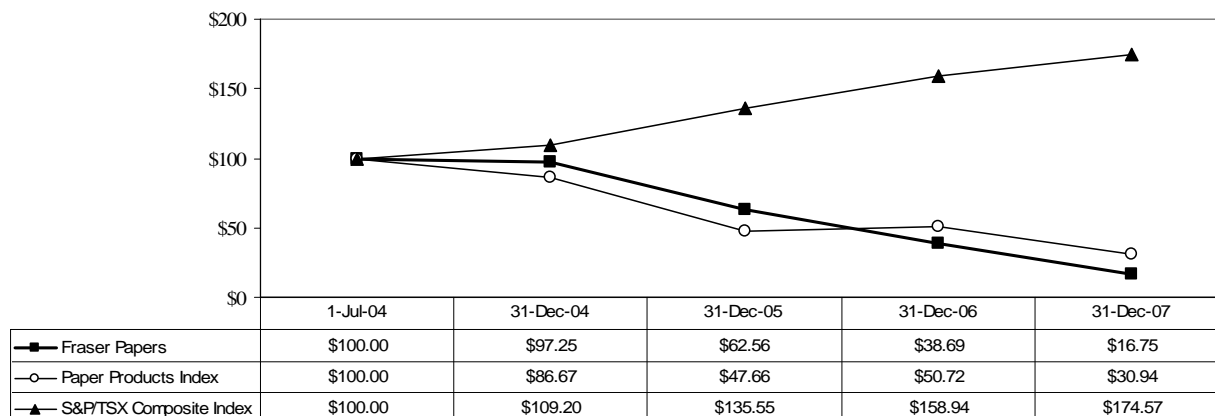
(2) Mr. McAlary also participates in the Fraser Papers 401(k) Retirement Savings Plan. In 2007, the Corporation's total matching contribution to the 401(k) Retirement Savings Plan for Mr. McAlary was \$8,100.

Mr. Dutton participates in the Fraser Papers 401(k) Retirement Savings Plan. The Corporation provides a basic allocation of 3% of pensionable earnings up to a maximum of \$225,000. The Corporation also makes a matching contribution of 50% of employee retirement plan contributions up to 8% of eligible earnings. In 2007, the Corporation's total contribution to the 401(k) Retirement Savings Plan for Mr. Dutton was \$13,847.

## PERFORMANCE GRAPH

The following graph assumes that C\$100 was invested on July 1, 2004 in the Common Shares of the Corporation, the TSX Paper Products Index and the S&P/TSX Composite Index respectively. The computations assume that all dividends are reinvested.

### Cumulative Total Return on C\$100 Investment July 1, 2004 – December 31, 2007



## PART SIX – STATEMENT OF CORPORATE GOVERNANCE PRACTICES

This section provides information about our corporate governance practices and how they compare to policies and rules of the Canadian Securities Administrators (CSA).

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 and meetings 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) assess, directly and through its Audit Committee, 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; and
- 4) effectively monitors the integrity of the Corporation's internal controls and systems primarily through the Audit Committee.

A copy of the full terms of reference for the Board is attached as Appendix 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 (see "Code of Business Conduct").

### **Meetings of the Board**

The Board meets at least once each quarter, with additional meetings held when appropriate. During 2007 there were five regularly scheduled meetings and six meetings to review specific matters. Five regular meetings are scheduled for 2008. 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 nine directors, which is within the minimum and maximum number range set out in the articles of the Corporation. The Corporation considers a Board consisting of nine directors 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 Messrs. Gammiero and Gordon are 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 under "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 Brookfield directors provides for appropriate consideration of minority shareholder interests in all Board activities.

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 currently 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.

At its meeting on February 5, 2008, the Board considered the recommendation of the Corporate Governance and Nominating Committee and concluded that it would merge the Human Resources and Pension Committees, effective May 1, 2008. Terms of reference and membership for the new Human Resources and Pension Committee will be determined prior to the organizational meeting of the Board on May 1, 2008.

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. Fraser Papers reviews the terms of reference of the Audit Committee on a regular basis and updates such terms of reference as legislation governing audit committees changes and best practices are established. Full terms of reference for the Audit Committee are set out 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 structure and the individual performance of its directors. The Corporate Governance and Nominating 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 Environment, Health and Safety 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 HR 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 HR 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 HR Committee approves the compensation levels. Together with the Chief Executive Officer, the HR Committee reviews the performance of senior officers of the Corporation and makes compensation recommendations to the Board. Full terms of reference for the HR 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. 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 2007, 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 2007, 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 Corporate Governance and Nominating 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 Corporate Governance and Nominating Committee. The Corporate Governance and Nominating 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 strategic and operating plans. 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.

## **Minimum Share Investment Requirement**

The Board believes that directors can better represent the Corporation's Shareholders if they are Shareholders themselves. Accordingly, the Board requires all directors to invest at least three times their annual retainer (C\$165,000) in Common Shares or DSUs of the Corporation. This minimum investment, which can be directly or indirectly held, 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 DSUs until the minimum investment is achieved.

## **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 2007"). 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.

## **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 that the performance of management is adequate and for bringing 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 Dominic Gammiero and Peter Gordon respectively. The Board has adopted written descriptions for all Board positions, including the Chairs of each Board committee. These descriptions are available on the Corporation's web site at [www.fraserpapers.com](http://www.fraserpapers.com) under "Corporate Governance". The following are the descriptions for the positions Chair of the Board and the 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 and 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 Chief Executive Officer**

The Chief Executive Officer provides leadership for 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 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 annual approval 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 Chair;
- 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. Two senior executives of the Corporation, Dominic Gammiero and Peter Gordon, are also directors. 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 support of the Board. Material deviations from the plan are reported to and considered by the Board.

## **Management Share Investment Requirements**

The Board adopted share ownership guidelines to foster long-term shareholdings by the Corporation's executives. These guidelines create a strong link between shareholders' and management's interests. The Board requires each Named Executive Officer to invest at least one times his salary, except for the Chief Executive Officer, who is required to invest two times his salary, in Common Shares or DSUs of the Corporation. Named Executive Officers have up to five years to invest the minimum required.

## **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 conflicting matter is before the Board for approval.

All violations of law or of the Code must be reported. The Corporation has implemented a Whistle Blower Policy, allowing directors, officers, employees, customers and suppliers to report, in confidence, a violation of law or of the Code through an independent third-party ethics reporting system, ClearView Connects™ ("Clearview"). Contact information can be found on the Corporation's website at [www.fraserpapers.com](http://www.fraserpapers.com) or at [www.clearviewconnects.com](http://www.clearviewconnects.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 is 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. Senior management is available to answer questions either directly or via e-mail at [investorrelations@toronto.fraserpapers.com](mailto:investorrelations@toronto.fraserpapers.com).

Shareholders who wish to contact the Chair or other Board members can do so directly or through the Assistant Corporate Secretary of the Corporation.

The Corporation 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.

#### **WHISTLE BLOWER POLICY**

The Corporation's Whistle Blower Policy was established by the Audit Committee to facilitate the reporting of concerns and complaints by directors, officers, employees, customers and suppliers ("Reports") relating to breaches of the Code, accounting practices, internal accounting controls or auditing matters directly to senior management or to the Chair of the Audit Committee (the "Audit Chair") confidentially and, if they choose, anonymously. The receipt by senior management or the Audit Chair will allow them to handle these Reports in a confidential and timely manner. Reports are received through Clearview, an independent, third party ethics reporting system. Contact information can be found on the Corporation's website at [www.fraserpapers.com](http://www.fraserpapers.com) or at [www.clearviewconnects.com](http://www.clearviewconnects.com).

The Board has charged the Audit Chair with the responsibility of overseeing reports regarding accounting matters and delivering such reports to the Audit Committee. Accounting matters include fraud or deliberate error in the preparation, evaluation, review or audit of any financial statement of the Corporation, fraud or deliberate error in the recording and maintaining of financial records of the Corporation, deficiencies in or non-compliance with the Corporation's internal controls, misrepresentation or false statement to or by a senior officer or employee regarding a matter contained in the financial records, financial reports or audit reports of the Corporation, or deviation from full and fair reporting of the Corporation's financial condition.

## **PART SEVEN – 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 under policies arranged by Brookfield with a combined single limit of C\$50 million subject to a corporate deductible of C\$1 million per loss. The limit is not exclusive to each corporation insured under the policies. 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\$44,300 annually.

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

In December of 2007, the Corporation announced a rights offering (the "Offering") under which the Corporation granted its existing shareholders the right to purchase 20,656,913 shares at a purchase price of C\$2.90 per share. In connection with the Offering, Brookfield entered into a Standby Purchase Agreement in which Brookfield agreed to exercise all of its rights and to purchase the Common Shares not otherwise subscribed for by other shareholders. Brookfield purchased a total of 18,813,241 Common Shares under the Offering for total proceeds of C\$54.6 million, increasing its ownership interest in the Corporation to approximately 70.5%.

Brookfield has provided Fraser Papers with a facility with a notional amount of \$200 million to enter into forward foreign exchange contracts as part of the Corporation's hedging activities. At December 31, 2007, the Corporation has entered into forward foreign exchange contracts of C\$30 million under this facility.

During 2007, Fraser Papers purchased \$5.7 million of electricity from Brookfield and its affiliated companies.

The Corporation has invested \$10 million in convertible term preferred units of Katahdin. The units earn a preferential cumulative distribution of 5% per annum and are convertible into common equity units of Katahdin. During 2007, Fraser Papers sold \$3.3 million of goods and services to 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 2007, the lessee earned \$8 million after all lease payments to the lessor.

In January of 2006, the Corporation sold its timberlands in New Brunswick to Acadian for net proceeds of approximately \$125 million, including cash of \$94 million and \$31 million of securities. The securities were convertible into 3,613,780 units of the Fund, representing a 22% interest on a fully-diluted basis, and were entitled to the same rights as units of the Fund. In September of 2007, the Corporation sold its interest in Acadian for net proceeds of approximately \$38.4 million. Of the 3,613,780 units sold, 2,600,000 were sold to Brookfield for net proceeds of \$27.6 million.

The Corporation has 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. During 2007 the Corporation purchased \$33.6 million of fibre from Acadian and paid \$0.8 million to Acadian as a fee for administering the Corporation's Crown Licenses. Brookfield owns a significant retained interest in Acadian and provides asset management services to the Fund. During the year, the Corporation recognized equity in earnings of the Fund of \$2.3 million and distributions received from the Fund were \$2.3 million.

## **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 2009 must be delivered to the Assistant Corporate Secretary at Suite 200, P.O. Box 762, Brookfield Place, 181 Bay Street, Toronto, Ontario M5J 2T3, no later than December 7, 2008 (being 90 days prior to the anniversary date of the Notice).

## **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, 2007.

The Corporation will provide any person or company, upon request to the Assistant Corporate Secretary 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, 2007, 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 "m Mueller".

MARINA MUELLER  
*Assistant Corporate Secretary*

*Toronto, Canada*  
March 10, 2008

## 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** – ensuring appropriate policies and procedures within the Corporation for communications by and to the Corporation including its disclosure policy and an appropriate system for receiving feedback from stakeholders is in place including the investor relations program;
- (f) **Maintaining Integrity** – satisfying itself as to the maintenance of a culture of integrity throughout the Corporation including its internal controls and procedures for financial reporting and compliance with its Code of Business Conduct; 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;
- (iii) any other material agreement or arrangement that is not in the ordinary course of business of the Corporation; and
- (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. If the Chair of the Board is not an independent director, the directors will 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**

### **STOCK OPTION PLAN RESOLUTION**

RESOLVED as an ordinary resolution that:

1. The amendments to the Stock Option Plan adopted by Fraser Papers Inc., as described in the management proxy circular of Fraser Papers Inc. dated March 10, 2008, are confirmed, ratified and approved.
2. Each officer of Fraser Papers Inc. is authorized, for an on behalf of Fraser Papers Inc., to execute and deliver such documents and to take such other actions as the officer determines to be necessary or desirable to give effect to this resolution, such determination to be conclusively evidenced by the execution and delivery of any such document or the taking of any such action.

**Fraser**Papers