



## **Fortress Paper Ltd.**

### **NOTICE OF ANNUAL AND SPECIAL MEETING AND MANAGEMENT PROXY CIRCULAR**

Time: April 30, 2009, at 2 p.m.

Place: **1000 - 925 West Georgia Street  
Vancouver, British Columbia  
Canada**

**FORTRESS PAPER LTD.**

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**NOTICE OF ANNUAL AND SPECIAL MEETING OF SHAREHOLDERS**

**TO BE HELD ON APRIL 30, 2009**

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TO: The Shareholders of Fortress Paper Ltd.

NOTICE IS HEREBY GIVEN that the annual and special meeting of shareholders of Fortress Paper Ltd. (the "**Corporation**") will be held at **1000 - 925 West Georgia Street, Vancouver, British Columbia, Canada**, on Thursday, April 30, 2009, at 2 p.m. (Vancouver time) (the "**Meeting**"), for the following purposes:

1. to receive and consider the financial statements of the Corporation for the financial year ended December 31, 2008, together with the report of the auditors thereon;
2. to elect directors of the Corporation for the ensuing year;
3. to appoint the auditors of the Corporation for the ensuing year and to authorize the directors to fix the remuneration to be paid to the auditors for the ensuing year;
4. to consider and, if thought advisable, to approve, by ordinary resolution (the text of which is set out in Appendix "B" to the accompanying management proxy circular), the adoption of a long term incentive plan of the Corporation; and,
5. to transact such other business as may properly come before the Meeting or any adjournment(s) thereof.

Accompanying this notice of meeting is the management proxy circular, a form of proxy and a financial statement request form.

Registered Shareholders who are unable to attend the Meeting are requested to complete, sign, date and return the enclosed form of proxy in accordance with the instructions set out in the form of proxy and in the management proxy circular accompanying this notice of meeting. A proxy will not be valid unless it is deposited at the office of Computershare Investor Services Inc., 510 Burrard Street, 3<sup>rd</sup> Floor, Vancouver, British Columbia V6C 3B9 (or by facsimile to (604) 689-8144) not less than 48 hours (excluding Saturdays, Sundays and holidays) before the time fixed for the Meeting or any adjournment(s) thereof. The chairman of the Meeting has the discretion to accept proxies received after that time.

DATED at Vancouver, British Columbia, this 26<sup>th</sup> day of March, 2009.

**BY ORDER OF THE BOARD OF DIRECTORS**

*/s/ Chadwick Wasilenkoff* \_\_\_\_\_

Chadwick Wasilenkoff

Chairman, Chief Executive Officer, President and Director

*If you are a non-registered shareholder of the Corporation and receive these materials through your broker or through another intermediary, please complete and return the materials in accordance with the instructions provided to you by your broker or by the other intermediary. Failure to do so may result in your shares not being eligible to be voted by proxy at the Meeting.*

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## MANAGEMENT PROXY CIRCULAR

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*UNLESS OTHERWISE NOTED, INFORMATION IS PROVIDED AS AT MARCH 26, 2009, FOR THE ANNUAL AND SPECIAL MEETING OF SHAREHOLDERS TO BE HELD ON APRIL 30, 2009 (THE "MEETING").*

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**This management proxy circular (the "Proxy Circular") is furnished in connection with the solicitation of proxies by management of Fortress Paper Ltd. (the "Corporation") for use at the Meeting and at any adjournment(s) thereof, at the time and place and for the purposes set forth in the accompanying notice of meeting dated March • , 2009 (the "Notice of Meeting").**

It is expected that the solicitation will be primarily by mail. Proxies may also be solicited personally by officers of the Corporation at nominal cost. The cost of this solicitation will be borne by the Corporation. The Notice of Meeting, form of proxy (the "**Proxy**"), this Proxy Circular and a financial statement request form will be mailed to beneficial owners of common shares of the Corporation commencing on or about April 3<sup>rd</sup>, 2009. In this Proxy Circular, except where otherwise indicated, all dollar amounts are expressed in Canadian currency.

### RECORD DATE

The board of directors of the Corporation (the "**Board**") has set the close of business on March 26, 2009, as the record date (the "**Record Date**") for determining which shareholders of the Corporation shall be entitled to receive notice of and to vote at the Meeting. Only shareholders of record as of the Record Date are entitled to receive notice of and to vote at the Meeting, unless after the Record Date a shareholder of record transfers his, her or its common shares and the transferee (the "**Transferee**"), upon establishing that the Transferee owns such common shares, requests in writing, at least ten days prior to the Meeting or at any adjournment(s) thereof, that the Transferee may have his, her or its name included on the list of shareholders entitled to vote at the Meeting. In such case, the Transferee, upon fulfilling the necessary requirements, will be entitled to vote such shares at the Meeting. Such written request by the Transferee shall be filed with the Secretary of the Corporation at 2<sup>nd</sup> Floor, 157 Chadwick Court, North Vancouver, British Columbia, Canada V7M 3K2.

### APPOINTMENT OF PROXYHOLDERS

**The persons named in the accompanying Proxy as proxyholders are management's representatives. A shareholder of the Corporation wishing to appoint some other person or company (that need not be a shareholder of the Corporation) to represent him, her or it at the Meeting may do so either by striking out the printed names and inserting the desired person or company's name in the blank space provided in the Proxy or by completing another proper Proxy and, in either case, delivering the completed Proxy to the office of Computershare Investor Services Inc., 510 Burrard Street, 2nd Floor, Vancouver, British Columbia V6C 3B9 (or by facsimile to (604) 689-8144) not less than 48 hours (excluding Saturdays, Sundays and holidays) before the time fixed for the Meeting or any adjournment(s) thereof. The chairman of the Meeting has the discretion to accept proxies received after that time.**

### VOTING OF PROXIES

If the Proxy is completed, signed and delivered to the Corporation, the person(s) named as proxyholders therein shall vote or withhold from voting the shares in respect of which they are appointed as proxyholders at the Meeting in accordance with the instructions of the shareholder of the Corporation appointing them, on any show of hands and/or on any ballot that may be called for, and if the shareholder specifies a choice with respect to any matter to be acted upon at the Meeting, the person(s) appointed as proxyholders shall vote accordingly. The Proxy confers discretionary authority upon the person(s) named therein with respect to: (a) each matter or group of matters identified therein for which a choice is not specified other than the appointment of an auditor and the election of directors; (b) any amendment to or variation of any matter identified therein; and (c) to transact such other business as may properly come before the Meeting or any adjournments or postponements thereof. As of the date of this Proxy Circular, the Board knows of no such amendments, variations or other matters to come before the Meeting, other than matters referred to in the Notice of Meeting. However, if other matters should properly come

before the Meeting, the Proxy will be voted on such matters in accordance with the best judgment of the person(s) voting the Proxy.

**If no choice is specified by a shareholder of the Corporation with respect to any matter identified in the Proxy or any amendment or variation to such matter, it is intended that the persons designated by management in the Proxy will vote the shares represented thereby in favour of such matter.**

## NON-REGISTERED HOLDERS

**Only registered shareholders or duly appointed proxyholders are permitted to vote at the Meeting. Most shareholders of the Corporation are "non-registered shareholders" because the shares they own are not registered in their name but are instead registered in the name of the brokerage firm, bank or trust company through which they purchased their shares.** More particularly, a person is not a registered shareholder in respect of shares which are held on behalf of that person (the "**Non-Registered Holder**") but which are registered either: (a) in the name of an intermediary (an "**Intermediary**") that the Non-Registered Holder deals with in respect of the shares (Intermediaries include, among others, banks, trust companies, securities dealers or brokers and trustees or administrators of self-administered RRSPs, RRIFs, RESPs and similar plans); or (b) in the name of a depository (such as The Canadian Depository for Securities Limited) of which the Intermediary is a participant. In accordance with the requirements of applicable securities laws, the Corporation has distributed copies of the Notice of Meeting, this Proxy Circular, the Proxy and a financial statement request form (collectively, the "**Meeting Materials**") to the depositories and Intermediaries for onward distribution to Non-Registered Holders.

Intermediaries are required to forward the Meeting Materials to Non-Registered Holders unless a Non-Registered Holder has waived the right to receive them. Very often, Intermediaries will use service companies to forward the Meeting Materials to Non-Registered Holders. Generally, Non-Registered Holders who have not waived the right to receive Meeting Materials will either:

- (a) be given a Proxy which 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 not completed. Because the Intermediary has already signed the Proxy, this Proxy is not required to be signed by the Non-Registered Holder when submitting the Proxy. In this case, the Non-Registered Holder who wishes to submit the Proxy should otherwise properly complete the Proxy and deliver it to the offices of the Corporation; or
- (b) more typically, be given a voting instruction form which is not signed by the Intermediary and which, when properly completed and signed by the Non-Registered Holder and returned to the Intermediary or its service company, will constitute voting instructions (often called a proxy authorization form) which the Intermediary must follow.

In either case, the purpose of this procedure is to permit Non-Registered Holders to direct the voting of the shares which they beneficially own. Should a Non-Registered Holder who receives one of the above forms wish to vote at the Meeting in person, the Non-Registered Holder should strike out the names of the management proxyholders and insert the Non-Registered Holder's name in the blank space provided, or in the case of a proxy authorization form, follow the corresponding instructions on the form. **In either case, Non-Registered Holders should carefully follow the instructions of their Intermediary, including those regarding when and where the Proxy or proxy authorization form is to be delivered.**

## REVOCABILITY OF PROXY

Any shareholder of the Corporation returning the enclosed Proxy may revoke the same by instrument in writing duly executed by the shareholder or by his attorney authorized in writing or, if the shareholder is a corporation, under its corporate seal or by an officer or attorney thereof duly authorized, and delivered either to Computershare Investor Services Inc. or to

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(s) thereof, or with the chairperson of the Meeting prior to the commencement of the Meeting. A revocation of a proxy will not affect a matter on which a vote is taken before the revocation.

## VOTING SECURITIES AND PRINCIPAL HOLDERS THEREOF

The Corporation's authorized capital consists of an unlimited number of common shares without par value and an unlimited number of Class B preferred shares with a par value of \$1,000 with the preferences, rights, conditions, restrictions, limitations and prohibitions set forth in the articles of the Corporation (the "**Articles**"). As at March 26, 2009, there were a total of **10,233,500** common shares of the Corporation outstanding. Each common share entitles the holder thereof to one vote.

The following table lists, to the knowledge of the directors and executive officers of the Corporation, those persons or companies who beneficially own, directly or indirectly, or exercises control or direction over, voting securities of the Corporation carrying more than 10% of the voting rights attached to any class of voting securities of the Corporation as at the date hereof:

Name	Number of Common Shares	Percentage of Common Shares
Chadwick Wasilenkoff <sup>(1)</sup>	2,334,700	22.81%

<sup>(1)</sup> As at the date hereof, Mr. Wasilenkoff also has 422,675 options to purchase common shares of the Corporation on a one-for-one basis.

## ELECTION OF DIRECTORS

The Board is recommending six persons (the "**Nominees**") for election at the Meeting. Each of the six persons whose name appears below is proposed by the Board to be nominated for election as a Director of the Company to serve until the next annual general meeting of the shareholders or until the Director sooner ceases to hold office.

The following table (and notes thereto) states the names of the Nominees, all offices of the Corporation now held by him, his present principal occupation, the period of time for which he has been a director of the Corporation and the number of common shares of the Corporation beneficially owned by him, directly or indirectly, or over which he exercises control or direction, as at the date hereof.

Name, Province and Country of Residence	Present Principal Occupation	Current Position(s) with the Corporation	Director Since	Number of Common Shares Owned
Chadwick Wasilenkoff British Columbia, Canada	Chief Executive Officer of the Corporation.	Chairman, Chief Executive Officer, President and Director	August 1, 2006	2,334,700
Per Gundersby <sup>(3)</sup> Helsinki, Finland	Business consultant	Director	October 14, 2006	Nil
Armin Martens <sup>(1) (2) (3)</sup> Manitoba, Canada	Chief Executive Officer, President and a trustee of Artis Real Estate Investment Trust.	Director	February 23, 2007	20,000
Richard O'C. Whittall <sup>(1) (2) (3)</sup> British Columbia, Canada	President of Watershed Capital Partners Inc.	Director	April 23, 2007	Nil
John Coleman <sup>(1)</sup> Zurich, Switzerland	Business consultant	Director	February 24, 2009	Nil
Roland Tornare <sup>(2)</sup> Charmey, Switzerland	Business consultant	Director	February 24, 2009	Nil

<sup>(1)</sup> A member of the Compensation Committee

<sup>(2)</sup> A member of the Governance Committee

<sup>(3)</sup> A member of the Audit Committee.

## STATEMENT OF EXECUTIVE COMPENSATION

Pursuant to applicable securities legislation, the Corporation is required to provide a summary of all annual and long-term compensation for services in all capacities to the Corporation and its subsidiaries for the most recently completed financial year in respect of the individuals comprised of the Chief Executive Officer, the Chief Financial Officer and the other three most highly compensated executive officers of the Corporation whose individual total compensation for the most recently completed financial year exceeds \$150,000, and any individual who would have satisfied these criteria but for the fact that the individual was not serving as an officer at the end of the most recently completed financial year (the "**Named Executive Officers**" or "**NEO**").

### Compensation Discussion and Analysis

The Corporation's compensation policy with respect to executive officers is designed to provide both short- and long-term rewards that are consistent with individual and corporate performance. The Compensation Committee's goal is to provide sufficient compensation opportunities for executive officers in order to attract, retain and motivate the best possible management team. Compensation for executive officers, including the Chief Executive Officer and Chief Financial Officer, consists of:

- (i) a base salary;
- (ii) annual and special bonus incentives; and
- (iii) options granted on a discretionary basis under the Corporation's stock option plan.

As set out under "Termination of Employment, Change in Responsibility and Employment Contracts", the Chief Executive Officer and Chief Financial Officer of the Corporation each have a written employment agreement.

The Compensation Committee determines each executive officer's base salary with reference to relevant industry norms, experience, past performance and level of responsibility. The Compensation Committee reviews salary levels periodically and may make adjustments, if warranted, as a result of salary increase trends in the marketplace, competitive positioning and an increase in responsibilities assumed by an executive. Annual cash bonus incentives are based upon the Corporation's ability to meet certain financial targets and each executive's individual performance. The Compensation Committee sets performance objectives and target levels on an annual basis and assesses executives against these targets in determining their overall compensation. From time to time, the Board may declare an additional cash bonus in favour of one or more executive officers in circumstances where it is determined that the executive in question has made an exceptional contribution to the performance of the Corporation in a particular year.

The Compensation Committee also considers stock options to be an important component of executive compensation. The objective of making grants under the stock option plan is to encourage executive officers to acquire an ownership interest in the Corporation over a period of time, thus better aligning the interests of executive officers with the interests of shareholders. When determining possible future option grants, the Compensation Committee considers past option grants.

Compensation for the Chief Executive Officer for the period ended December 31, 2008, is set out in an employment agreement as described under "Termination of Employment, Change in Responsibility and Employment Contracts".

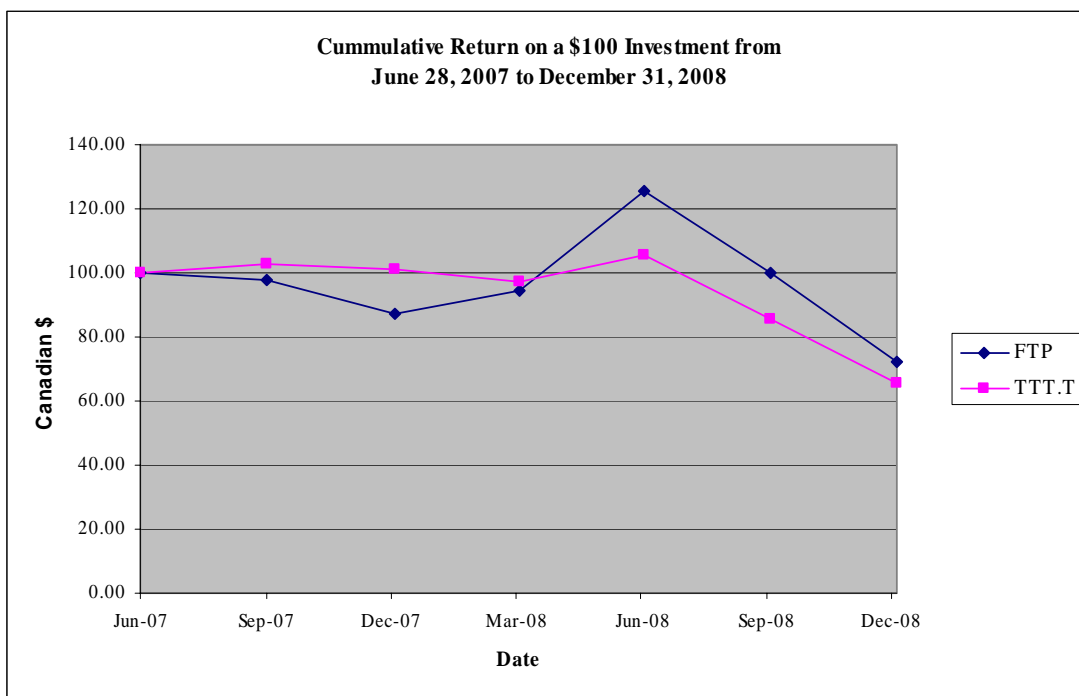
The foregoing report is submitted by:

Armin Martens  
Richard O.C. Whittall  
John Coleman

## Performance Graph

The Corporation's common shares commenced trading on the Toronto Stock Exchange (the "TSX") under the symbol "FTP" on June 28, 2007. The following graph compares the percentage change in the Corporation's cumulative total shareholder return on its common shares with the cumulative total return on the S&P/TSX Composite Index for the period from June 28, 2007 to December 31, 2008. The graph illustrates the cumulative return on a \$100 investment in the Corporation's common shares made on June 28, 2007 as compared with the cumulative return on a \$100 investment in the S&P/TSX Composite Index (assuming the reinvestment of dividends). The performance of the common shares as set out in the graph below does not necessarily indicate future price performance.

Executive compensation has generally followed the trend in shareholder returns. The market conditions towards the end of the year has resulted in a considerable disconnect between financial performance and share performance.



	June 28, 2007	September 28, 2007	December 31, 2007	March 31, 2008	June 30, 2008	September 30, 2008	December 31, 2008
<b>Fortress Paper Ltd.</b>	\$100.00	\$97.75	\$87.50	\$94.38	\$125.50	\$100.00	\$72.13
<b>S&amp;P/TSX Composite Index</b>	\$100.00	\$102.79	\$100.86	\$97.33	\$105.48	\$85.69	\$65.53

The following table (and notes thereto) states the name of each Named Executive Officer, his or her annual compensation, consisting of salary, bonus and other annual compensation, and long term compensation, including stock options granted, for the most recently completed financial year of the Corporation.

Name and principal position	Year	Salary (\$)	Share-based awards (\$)	Option-based awards (\$)	Non-equity incentive plan compensation (\$)		All other compensation (\$) <sup>(4), (5)</sup>	Total compensation (\$)
					Annual incentive plans <sup>(3)</sup>	Long-term incentive plans		
Chadwick Wasilenkoff Chief Executive Officer and President <sup>(1)</sup>	2008	\$370,000	Nil	Nil	\$370,000	Nil	Nil	\$740,000
Erich Sulser <sup>(2)</sup> Chief Financial Officer	2008	\$171,216	Nil	Nil	\$50,814	Nil	\$47,822	\$269,852
Alfonso Ciotola <sup>(2)</sup> Chief Operating Officer	2008	\$459,493	Nil	Nil	\$111,223	Nil	Nil	\$570,716

<sup>(1)</sup> Total amounts stated solely reflect the annual compensation received for the 2008 year. As an inside Director of the Corporation, Mr. Wasilenkoff does not collect any fee's relating to his role as a Director.

<sup>(2)</sup> Compensation is paid to the NEO in Swiss Francs. The amount reported represents the approximate Canadian Dollar equivalent translated at the average exchange rate for the year being 0.9840 to each Swiss Franc based on rates provided by the Bank of Canada.

<sup>(3)</sup> Annual incentive plans represent bonus received by the NEO for the 2008 year.

<sup>(4)</sup> Mr. Sulser received \$18,302 in perquisites and a \$29,520 retention fee.

<sup>(5)</sup> Perquisites have not been included for Dr. Ciotola as they do not reach the prescribed threshold of the lesser of \$50,000 and 10% of the total salary for the financial year 2008.

### Option Grants During the Most Recently Completed Financial Year

There were no options granted to Named Executive Officers during the most recently completed financial year. As at December 31, 2008, 1,012,675 options remain outstanding.

### Outstanding Option-based Awards

Name and principal position	Option-based Awards			
	Number of securities underlying unexercised options (#)	Option exercise price (\$)	Option expiration date	Value of unexercised in-the-money options (\$)
Chadwick Wasilenkoff Chief Executive Officer and President	222,675 200,000	\$8.00 \$8.00	June 28, 2017 October 31, 2017	Nil Nil
Erich Sulser Chief Financial Officer	N/A	N/A	N/A	N/A
Alfonso Ciotola Chief Operating Officer	100,000 300,000	\$8.00 \$8.00	June 28, 2017 October 31, 2017	Nil Nil

The table above states the name of each Named Executive Officer, the number of options available for exercise, the option exercise price and the expiration date for each option. As at December 31, 2008, the value of in-the-money unexercised options held by the Named Executive Officers was nil.



## Incentive Plan Awards – Value Vested or Earned During the Year

Name	Option-based awards – Value vested during the year (\$) <sup>(1)</sup>	Non-equity incentive plan compensation value earned during the year (\$) <sup>(2)</sup>
Chadwick Wasilenkoff Chief Executive Officer and President	\$311,745	\$370,000
Erich Sulser Chief Financial Officer	N/A	\$50,814
Alfonso Ciotola Chief Operating Officer	\$140,000	\$111,223

<sup>(1)</sup> The amount represents the aggregate dollar value that would have been realized if the options had been exercised on the vesting date, based on the difference between the closing price of the common shares on the TSX and the exercise price on such vesting date.

<sup>(2)</sup> The amount represents bonus received by the NEO for the 2008 year. Mr. Sulser and Dr. Ciotola each receive their bonus in Swiss Francs. The amount reported represents the approximate Canadian Dollar equivalent translated at the average exchange rate for the year being 0.9840 to each Swiss Franc based on rates provided by the Bank of Canada.

During the most recently completed financial year, the Named Executive Officers did not exercise any options under the Corporation's stock option plan in respect of the common shares of the Corporation.

## Long Term Incentive Plan ("LTIP") Awards

The Corporation did not have a LTIP pursuant to which cash or non-cash compensation intended to serve as an incentive for performance (whereby performance is measured by reference to financial performance or the price of the Corporation's securities) was paid or distributed to the Named Executive Officers during the most recently completed financial year.

## Pension Plan Benefits - Defined Benefit Plan

The Company maintains a defined benefit pension plan in Switzerland providing pension benefits based on earnings and length of service. The amounts reported in the table below represent the approximate Canadian Dollar equivalent translated at the average exchange rate for the year being 0.9840 to each Swiss Franc based on rates provided by the Bank of Canada.

Name	Number of years credited service (#)	Annual benefits payable (\$)		Accrued obligation at start of year (\$)	Compensatory Change (\$) <sup>(1)</sup>	Non-compensatory Change (\$)	Accrued obligation at year end (\$)
		At year end	At age 65				
Erich Sulser Chief Financial Officer	3.3	20,978	67,565	307,994	31,955	nil	339,949
Alfonso Ciotola Chief Operating Officer	1.8	1,776	14,488	22,018	27,028	nil	49,046

(1) Please refer to note 14 of the Corporation's audited financial statements for the year ended December 31, 2008 filed on [www.sedar.com](http://www.sedar.com) for actuarial assumptions.

## Termination and Change of Control Benefits and Employment Contracts

### *Chadwick Wasilenkoff*

Mr. Wasilenkoff has entered into an employment agreement with the Corporation dated April 5, 2007, pursuant to which Mr. Wasilenkoff agreed to serve as the Chairman, Chief Executive Officer and President of the Corporation. The employment agreement is for an unlimited term unless earlier terminated by the Corporation providing 24 months' notice of its intention to terminate his employment. Pursuant to the employment agreement, Mr. Wasilenkoff will receive: (i) an annual base salary of \$370,000, subject to an annual review; (ii) an annual bonus; (iii) equity compensation pursuant to long-term incentive programs including the Corporation's stock option plan; and (iv) certain perquisites. If Mr. Wasilenkoff's employment is terminated without just cause or he resigns for good reason (as defined in the agreement), he will be entitled to a severance payment equal to two times the sum of his then base salary plus the higher of: (i) his current annual bonus; and (ii) the highest variable pay and incentive bonus received during the three fiscal years ending prior to his termination. This amount is payable in substantially equal installments over a twelve-month period, unless: (i) a change of control (as defined in the agreement) occurs following such termination, in which case the unpaid portion of such severance amount is payable in full immediately following such change of control; or (ii) if such termination occurs in contemplation of, at the time of, or within 18 months after a change of control, the severance amount is payable in a lump sum cash payment immediately following such termination. In addition, all unvested rights in any stock options and any other equity awards will vest in full and become immediately exercisable. Assuming a discontinuance of Mr. Wasilenkoff's services if a change of control took place on December 31, 2008, the Corporation would have been required to make a payment to Mr. Wasilenkoff in the aggregate amount of \$1,110,000 pursuant to the terms of his employment agreement.

### *Dr. Alfonso Ciotola*

Dr. Ciotola has entered into an employment agreement with Landqart Ag ("**Landqart**") dated March 1, 2007, as amended, pursuant to which Dr. Ciotola agreed to serve as the Chief Executive Officer of the Landqart Mill, Managing Director of Dresden Papier (GmbH) ("**Dresden**") and Chief Operating Officer of the Corporation for an indefinite term subject to termination by either party upon providing six months' notice. The agreement provides for an annual salary of €42,000 net of social costs, subject to an annual review. Dr. Ciotola received an increase of €9,680 or 4% effective January 1, 2008. Dr. Ciotola is also entitled to receive an annual bonus.

### *Erich Sulser*

Mr. Sulser has entered into an employment agreement with Landqart dated September 2, 2005, as amended, pursuant to which Mr. Sulser agreed to serve as the Chief Financial Officer of Landqart and the Corporation for an indefinite term, subject to termination by either party upon providing six months' notice. The agreement provides for an annual salary of CHF174,000. In addition, Mr. Sulser is also entitled to an annual bonus of up to a maximum of CHF65,000 based on Landqart's and Dresden's annual performance.

## Composition of the Compensation Committee

The Corporation's Compensation Committee is responsible for the development, implementation and monitoring of the Corporation's compensation policy for executive officers and members of the Board.

The following are the members of the Compensation Committee:

Armin Martens\*  
Richard O.C. Whittall\*  
John Coleman\*

\* Independent directors

## Composition of the Corporate Governance Committee

The Corporation's Corporate Governance Committee overall responsibility is for ensuring that the Corporation meets applicable legal, regulatory and (self regulatory) business principles and 'codes of best practice' of corporate behavior and conduct.

The following are the members of the Corporate Governance Committee:

Armin Martens\*  
Richard Whittall\*  
Roland Tornare\*

\* Independent directors

## Compensation of Directors

In February 2009, the Board approved an Amended Directors' Compensation Policy which applies to the period beginning October 1, 2008. In the previous Directors' Compensation Policy Director fees were stated in US dollars. Under the amended policy, fees are stated in Canadian dollars. Corporation's "outside" Directors are paid a quarterly retainer of \$6,000. In addition, outside Directors are paid the sum of \$1,000 for each Board Meeting attended.

The Audit Committee Chairperson, Compensation Committee Chairperson and Corporate Governance Chairperson will each receive retainers of \$8,000, \$4,000 and \$4,000 per year respectively. Committee members will each receive a \$2,000 yearly retainer for each Committee he or she sits on. Outside Directors are also paid the sum of \$1,000 for each Committee Meeting attended.

The following table (and notes thereto) states the names of each Director and the fees earned for the most recently completed financial year of the Corporation.

Name	Fees earned (\$) (1)	Share-based awards (\$)	Option-based awards (\$)	Non-equity incentive plan compensation (\$)	Pension value (\$)	All other compensation (\$)	Total (\$)
Richard Whittall	\$39,370	Nil	Nil	Nil	Nil	Nil	\$39,370
Armin Martens	\$40,969	Nil	Nil	Nil	Nil	Nil	\$40,969
Per Gundersby	\$30,489	Nil	Nil	Nil	Nil	Nil	\$30,489
Jimmy Lee (2)	\$27,937	Nil	Nil	Nil	Nil	Nil	\$27,937
John Coleman (3)	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Roland Tornare (4)	N/A	N/A	N/A	N/A	N/A	N/A	N/A

(1) Q1 through Q3 Director fees were stated and paid in US dollars. The Q4 Director fees were amended to Canadian dollars.

(2) Jimmy Lee resigned as a Director of the Corporation on February 24, 2009.

(3) John Coleman was appointed as a Director of the Corporation on February 24, 2009.

(4) Roland Tornare was appointed as a Director of the Corporation on February 24, 2009.

In April 2008, the Board approved an Amended Travel and Entertainment Policy. Under the Travel and Entertainment Policy, both inside and outside directors are entitled to reimbursement of travel and other expenses incurred in the conduct of the Corporation's business.

## Outstanding Option-based Awards

Option-based Awards				
Name and principal position	Number of securities underlying unexercised options (#)	Option exercise price (\$)	Option expiration date	Value of unexercised in-the-money options (\$)
Per Gundersby	15,000	\$8.00	28-Jun-17	Nil
	10,000	\$8.00	31-Oct-17	Nil
Richard O.C. Whittall	15,000	\$8.00	28-Jun-17	Nil
	10,000	\$8.00	31-Oct-17	Nil
Armin Martens	15,000	\$8.00	28-Jun-17	Nil
	10,000	\$8.00	31-Oct-17	Nil
Jimmy Lee <sup>(1)</sup>	15,000	\$8.00	28-Jun-17	Nil
	10,000	\$8.00	31-Oct-17	Nil
John Coleman <sup>(2)</sup>	N/A	N/A	N/A	N/A
Roland Tornare <sup>(3)</sup>	N/A	N/A	N/A	N/A

(1) Jimmy Lee resigned as a Director of the Corporation on February 24, 2009.

(2) John Coleman was appointed as a Director of the Corporation on February 24, 2009.

(3) Roland Tornare was appointed as a Director of the Corporation on February 24, 2009.

The table above states the name of each Director, the number of options available for exercise, the option exercise price and the expiration date for each option. As at December 31, 2008, the value of in-the-money unexercised options held by the Directors was nil.

## Incentive plan awards – Value Vested or Earned During the Year

Name	Option-based awards – Value vested during the year (\$) <sup>(2)</sup>
Per Gundersby	\$21,000
Jimmy Lee <sup>(1)</sup>	\$21,000
Richard Whittall	\$21,000
Armin Martens	\$21,000

(1) Jimmy Lee resigned as a Director of the Corporation on February 24, 2009.

(2) The amount represents the aggregate dollar value that would have been realized if the options had been exercised on the vesting date, based on the difference between the closing price of the common shares on the TSX and the exercise price on such vesting date.

During the most recently completed financial year, the Directors did not exercise any options under the Corporation's stock option plan in respect of the common shares of the Corporation.

## SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

### Equity Compensation Plan Information

The Board has adopted a stock option plan (the "**Option Plan**") for the Corporation's directors, officers, employees, insiders and service providers. The Option Plan provides that options to purchase common shares may be granted to eligible persons on terms determined within the limitations set out in the Option Plan. The maximum number of common shares to be reserved for issuance at any one time under the Option Plan and any other employee incentive plan is ten percent of the issued and outstanding common shares of the Corporation. As of December 31<sup>st</sup>, 2008 there were 1,012,675 issued and outstanding options, representing 9.89% of the total amount issuable under the plan. Under the terms of this Plan, options issued to any one participant who is an insider and the associates of such Participant within a one year period shall not exceed 5% of the number of common shares then outstanding. The exercise price for an option granted under the Option Plan may not be less than the market price of the shares immediately preceding the date of grant. Options granted may be subject to vesting requirements. Options will be granted for a period which may not exceed ten years from the date of grant but will expire within 90 days of a participant ceasing to be a director, officer, employee, insider or service provider of the Corporation, unless that participant ceases to be a director, officer, employee, insider or service provider of the Corporation for cause, in which case no option held by such participant shall be exercisable. No rights under the Plan and no Option awarded pursuant to the provisions of the Plan are assignable or transferable by any Participant other than pursuant to a will or by the laws of descent and distribution. The Board may from time to time in its absolute discretion amend, modify and change the provisions of an Option or the Plan without obtaining approval of shareholders to:

- (a) make amendments of a "housekeeping" nature;
- (b) change vesting provisions of an Option or the Plan;
- (c) change the termination provisions of an Option or the Plan which does not entail an extension beyond the original expiry date of the Option or the Plan;
- (d) change the termination provisions of an Option or the Plan which does entail an extension beyond the original expiry date of the Option or the Plan for a Participant who is not an Insider;
- (e) reduce the exercise price of an Option for a Participant who is not an Insider;
- (f) remove or change any restriction or condition attached to a Common Share;
- (g) implement a cashless exercise feature, payable in cash or securities, provided that such feature provides for a full deduction of the number of Common Shares from the number of Common Shares reserved under the Plan; and
- (h) make any other amendments of a non-material nature which are approved by the Exchange.

All other amendments, modifications or changes shall only be effective upon such amendment, modification or change being approved by the shareholders of the Corporation. Any amendment, modification or change of any provision of the Plan shall be subject to approval, if required, by any regulatory body having jurisdiction.

The Option Plan is administered by the Corporation's Compensation Committee. The Option Plan is subject to the rules and policies of the TSX, including the requirement for shareholder approval every three years following institution.

The following table sets out information relating to the Corporation's Option Plan as at December 31, 2008.

<b>Plan category</b>	<b>Number of securities to be issued upon exercise of outstanding options, warrants and rights</b>	<b>Weighted-average exercise price of outstanding options, warrants and rights</b>	<b>Number of securities remaining available for future issuance under equity compensation plans</b>
Equity compensation plans approved by security holders	1,012,675	\$8.00	10,675

## **INDEBTEDNESS OF DIRECTORS AND EXECUTIVE OFFICERS**

As at December 31, 2008, no individual who is or was a director, executive officer or employee of the Corporation or any of its subsidiaries, any proposed nominee for election as a director of the Corporation or any associate of such director or officer, is or was, at the end of the most recently completed financial year, indebted to the Corporation or any of its subsidiaries since the beginning of the most recently completed financial year of the Corporation, or is or has been indebted to another entity that is or has been the subject of a guarantee, support agreement, letter of credit or other similar arrangement or understanding provided by the Corporation or any of its subsidiaries during that period.

## **MANAGEMENT CONTRACTS**

To the best of the knowledge of the directors and officers of the Corporation, management functions of the Corporation are not, to any substantial degree, performed by a person other than the directors and senior officers of the Corporation.

## **AUDIT COMMITTEE**

For information regarding the Corporation's Audit Committee, please refer to the Corporation's Annual Information Form ("**AIF**") for the year ended December 31, 2008 under the heading "Directors and Executive Officers – Audit Committee". The AIF is available on SEDAR at [www.sedar.com](http://www.sedar.com).

## **CORPORATE GOVERNANCE**

### **Board of Directors**

The directors are responsible for managing and supervising the management of the business and affairs of the Corporation. Each year, the Board must review the relationship that each director has with the Corporation in order to satisfy themselves that the relevant independence criteria have been met.

Other than interests arising from shareholdings in the Corporation, Messrs. Gundersby, Martens, Whittall, Tornare and Coleman are independent directors within the meaning set out in Multilateral Instrument 52-110 – "*Audit Committees*" in that they are free from any interest which could reasonably interfere with their exercise of independent judgment as directors of the Corporation. Mr. Wasilenkoff is an employee and executive officer of the Corporation and therefore not independent.

In order to facilitate its exercise of independent judgment in carrying out its responsibilities, the Board may establish informal committees on an as needed basis consisting solely of independent directors to consider certain matters to be considered by the Board. The Board, or any committee, may also seek advice from outside advisors. The Board also follows a practice whereby any director who has an interest in a matter the Board is considering will either abstain from voting on the matter or exit the Board meeting.

The following directors of the Corporation hold directorships in other reporting issuers as set out below:

Name of Director	Name of Other Reporting Issuer
Chad Wasilenkoff	Woodbridge Energy Ltd. Petra Petroleum Inc.
Armin Martens	Artis Real Estate Investment Trust All in West! Capital Corporation
Richard O'C. Whittall	Canadian General Investment Canadian World Fund Ltd. Maximizer Software Inc. Burcon NutraScience Corporation Skin Biology Inc. Winwell Ventures Inc. GVIC Communications Corp. Aurea Mining Inc. Newstrike Capital Inc.

The independent directors do not hold regularly scheduled meetings at which non-independent directors and members of management are not in attendance. However, in order to facilitate open and candid discussion among independent directors, communication among the independent directors occurs on an informal and ongoing basis as such need arises.

The Board does not have a Chairman independent of management. Mr. Wasilenkoff, the Chairman of the Board, is also the Corporation's Chief Executive Officer and President. The Board believes that this structure best reflects the entrepreneurial leadership of the Corporation. The Board is satisfied that the autonomy of the Board and its ability to function independently of management are protected through measures such as the Audit Committee and Compensation Committee and the Corporate Governance Committee being composed of all or a majority of independent directors and each committee being chaired by an independent director. In addition, in order to provide leadership for its independent directors, the Board encourages its independent members to discuss matters separate from the non-independent Board members and to seek the advice of financial, legal or other consultants when necessary.

The following table sets forth the number of Board and committee meetings held and attendance by directors for the most recently completed financial year.

Director	Board Meetings	Compensation and Corporate Governance Committee Meetings	Audit Committee Meetings
Chadwick Wasilenkoff	5/5	N/A	N/A
Jimmy S.H. Lee	3/5	3/5	N/A
Per Gundersby	5/5	N/A	4/4
Armin Martens	5/5	5/5	4/4
Richard O'C. Whittall	5/5	5/5	4/4

Subsequent to the year ended December 31, 2008, the Board met on one occasion, the Compensation Committee has met on one occasion, the Corporate Governance Committee met on one occasion and the Audit Committee met on one occasions. All members of the Board and the committees were in attendance at each of their respective meetings.

The Corporation's current board mandate, which is reviewed on an annual basis, is attached hereto as Appendix "A". The Board has not developed written descriptions for the CEO or the chairs of each Board of Directors committee. The CEO responsibilities are described in the employment agreement. The chairs of each Board of Directors Committee follow the charter for the respective committee.

### Orientation and Continuing Education

The Corporation does not have a formal process of orientation and education for new members of the Board. The current directors are experienced in boardroom procedure and corporate governance and generally have a good understanding of the business. As necessary, new members of the Board are provided with information about the Corporation, the role of the

Board, the Board's committees, the Board's directors and the Corporation's industry. In addition, the Corporation provides continuing education for its directors as such need arises.

### **Ethical Business Conduct**

The Corporation adopted a Code of Business Conduct and Ethics (the "**Code**") in May 2007, which is available under the Corporation's profile at [www.sedar.com](http://www.sedar.com). The Code sets out the principles that should guide the behavior of the Corporation's directors, officers and employees. The Code addresses issues such as the following:

- (a) conflicts of interest, including transactions and agreements in respect of which a director or executive officer has a material interest;
- (b) protection and proper use of corporate assets and opportunities;
- (c) fair dealing with the Corporation's security holders, customers, suppliers, competitors and employees;
- (d) compliance with laws, rules and regulations; and
- (e) reporting of any illegal or unethical behavior.

The Board is responsible for monitoring compliance with the Code. One tool used for monitoring compliance is the Corporation's Whistleblower Policy. Any person can report complaints or concerns, which may be on an anonymous basis, through the procedures of the Whistleblower Policy.

To ensure directors of the Corporation exercise independent judgment in considering transactions, agreements or decisions in respect of which a director or executive officer has declared a material personal interest (in accordance with relevant corporate law requirements), the Board follows a practice whereby any such Board member must be absent during any Board discussion pertaining thereto and not cast a vote on any such matter. Significant contracts that may be deemed to be a conflict are also reviewed and approved by the Corporation's Audit Committee.

In addition, the Board must comply with conflict of interest provisions in Canadian corporate law and relevant securities regulatory instruments in order to ensure that directors exercise independent judgment in considering transactions and agreements in respect of which a director or executive officer has a material interest.

### **Nomination of Directors**

Although the Corporation does not have a nominating committee to propose new Board nominees, the Corporate Governance Committee is responsible for advising the Board with respect to the filling of vacancies on the Board and making recommendations as to nominees for the Board and uses an informal consultative process.

The Corporate Governance Committee analyzes the needs of the Board when vacancies arise and identifies and proposes new nominees who have the necessary competencies and characteristics to meet such needs. New candidates are introduced to the Board by members of the Corporate Governance Committee.

In order to foster an objective nomination process, the independent members of the Board are encouraged to recommend nominees for the Board.

### **Compensation**

The Compensation Committee is appointed by the Board to, among other things, discharge the Board's responsibilities relating to compensation of the Corporation's directors and officers. The Compensation Committee periodically reviews the



adequacy and form of compensation to ensure it realistically reflects the responsibilities and risks involved in being an effective director or officer and that the compensation allows the Corporation to attract qualified candidates. Such review includes an examination of publicly available data as well as independent compensation surveys.

The Compensation Committee annually reviews and approves corporate goals and objectives relevant to the compensation of the Chief Executive Officer, evaluates the Chief Executive Officer's performance in light of those goals and objectives and sets the Chief Executive Officer's compensation level based on this evaluation. The Compensation Committee meets without the presence of other executive officers when approving the Chief Executive Officer's compensation.

The Compensation Committee is composed entirely of independent directors. In order to ensure an objective process for determining compensation, the Compensation Committee reviews independent materials such as pay survey data and industry reports. In addition, the Compensation Committee benchmarks against other companies using peer group studies compiled for the Committee.

### **Assessments**

The Board is responsible for keeping management informed of its evaluation of the performance of the Corporation and its senior officers in achieving and carrying out the Board's established goals and policies, and is also responsible for advising management of any remedial action or changes which it may consider necessary. Additionally, directors are expected to devote the time and attention to the Corporation's business and affairs as necessary to discharge their duties as directors effectively.

The Board does not have a formal process to monitor the effectiveness of the Board, its committees and individual members, but rather relies on an informal review process. In order to gauge performance, the Board considers the following:

- (a) input from directors, where appropriate;
- (b) attendance of directors at meetings of the Board and any committee;
- (c) the charter of each committee; and
- (d) the competencies and skills each individual director is expected to bring to the Board and each committee.

### **APPOINTMENT OF AUDITORS**

Management of the Corporation will recommend at the Meeting that shareholders appoint Pricewaterhouse Coopers LLP, Chartered Accountants as auditors of the Corporation until the next annual meeting of shareholders and to authorize the directors to fix their remuneration. Pricewaterhouse Coopers LLP was first appointed as auditors of the Corporation by the Board on October 24<sup>th</sup>, 2006.

### **PARTICULAR MATTERS TO BE ACTED UPON**

#### **Approval of Long-Term Incentive Plan**

On March 3, 2009, the board of directors of the Corporation approved a new Long-Term Incentive Plan (the "LTIP"). The purpose of the LTIP is to align the interests of Eligible Persons (as defined herein) with those of the Corporation and its shareholders and to assist in attracting, retaining and motivating key employees of the Corporation by making a significant portion of the incentive compensation of participating employees directly dependent upon the achievement of key strategic, financial and operational objectives that are critical to ongoing growth and increasing the long-term value of the Corporation.

At the Meeting, shareholders will be asked to approve an ordinary resolution to adopt the LTIP. Unless otherwise directed, the management nominees designated in the enclosed proxy form intend to vote in favour of the adoption of the LTIP. The text of the Ordinary Resolution is attached as Appendix "B" of this Proxy Circular.

The following is a summary of the LTIP. The summary is qualified in its entirety by the full text of the LTIP as attached as Appendix "C" of this Proxy Circular.

#### *Description of the LTIP*

The LTIP is available to directors and certain officers and employees, as determined by the board (the "**Eligible Employees**"). The aggregate number of common shares of the Corporation issuable under the LTIP, together with shares reserved for issuance under all of the Corporation's other security-based compensation arrangements, shall not exceed ten percent of the Corporation's issued and outstanding common shares. The total number of common shares issuable to any participant under the LTIP, at any time, together with any other security-based compensation arrangements of the Corporation, shall not exceed five percent of the issued and outstanding common shares of the Corporation. The total number of common shares issuable to insiders within any one-year period and at any given time under the LTIP, together with any other security-based compensation arrangement of the Corporation, shall not exceed ten percent of the issued and outstanding common shares of the Corporation. The total number of common shares issuable to non-executive directors under the LTIP shall not exceed one percent of the issued and outstanding common shares of the Corporation. Except as otherwise determined by the board of directors, neither awards nor any rights under any such awards shall be assignable or transferable.

The board of directors may at any time, in its sole discretion and without the approval of shareholders, amend, suspend, terminate or discontinue the LTIP and may amend the terms and conditions of any grants thereunder, subject to (a) any required approval of any applicable regulatory authority or the TSX, and (b) approval of shareholders of the Corporation, provided that shareholder approval shall not be required for the following amendments and the board of directors may make changes which may include but are not limited to: (i) amendments of a 'housekeeping nature'; (ii) any amendment for the purpose of curing any ambiguity, error or omission in the LTIP or to correct or supplement any provision of the LTIP that is inconsistent with any other provision of the LTIP; (iii) an amendment which is necessary to comply with applicable law or stock exchange requirements; (iv) amendments respecting administration and eligibility for participation under the LTIP; (v) changes to terms and conditions on which awards may be or have been granted pursuant to the LTIP including changes to the vesting provisions and terms of any awards; (vi) amendments which alter, extend or accelerate the terms of vesting applicable to any award; and (vii) changes to the termination provisions of an award or the LTIP which do not entail an extension beyond the original fixed term. If the LTIP is terminated, prior awards shall remain outstanding and in effect in accordance with their applicable terms and conditions. The board of directors may waive any conditions or rights under, or amend any terms of, any awards, provided that no such amendment or alteration shall be made which would impair the rights of any participant, without such participant's consent, unless the board of directors determines that such amendment or alteration either: (i) is required or advisable in order to conform to any law, regulation or accounting standard; or (ii) is not reasonably likely to diminish the benefits provided under such award.

#### Restricted Share Units

The LTIP provides that the board of directors of the Corporation may, from time to time, at its sole discretion, grant awards of restricted share units ("**RSUs**") to participants. Each RSU shall represent one common share of the Corporation. RSUs shall be subject to such restrictions as the board of directors may establish in the applicable award agreement. All RSUs will vest and become payable by the issuance of common shares of the Corporation on the third anniversary of their grant date at the end of the restriction period if all applicable restrictions have lapsed, unless otherwise provided in the award agreement.

Restrictions on any RSUs shall lapse immediately and become fully vested in the participant upon a change of control or death of a participant. If a participant's employment is terminated with or without cause, any RSUs granted to the participant will immediately terminate without payment and be cancelled as of the termination date. If a participant's employment terminates due to retirement or disability, or, in the case of directors, if a participant ceases to be a director for any reason, RSUs granted to such participant will continue to vest in accordance with the terms of such RSUs and shall become payable as of the vesting date.

### Performance Share Units

The LTIP provides that the board of directors of the Corporation may, from time to time, at its sole discretion, grant awards of performance share units ("PSUs") to certain officers and employees. Each PSU shall, contingent upon the attainment of the performance criteria within the three-year performance cycle, represent one common share of the Corporation. The performance criteria will be established by the board of directors which, without limitation, may include criteria based on the participant's individual performance and/or financial performance of the Company, which will determine vesting of the PSUs. The board of directors may, in its sole discretion, revise the performance criteria during a performance cycle or after it has ended, if unforeseen events occur, including, without limitation, changes in capitalization, equity restructuring, acquisitions or divestitures, if such events have a substantial effect on the financial results of the Corporation and make the application of the performance criteria unfair absent a revision.

All PSUs will vest and become payable to the extent that the performance criteria are satisfied in the sole determination of the board of directors. PSUs granted to a participant shall become fully vested and payable to such participant within 95 days after the last day of the performance cycle, upon a change of control or death of a participant. If a participant's employment is terminated with or without cause, any PSUs granted to the participant will immediately terminate without payment and be cancelled as of the termination date. If a participant's employment terminates due to retirement or disability, the board of directors shall determine, in its sole discretion, the number of such participant's PSUs that will vest based on the extent to which the applicable performance criteria have been satisfied.

### Deferred Share Units

The LTIP provides that the board of directors of the Corporation may, from time to time, at its sole discretion, grant awards of deferred share units ("DSUs") to directors in lieu of director fees. Directors become participants effective as of the date he or she is first appointed or elected as a director and cease to be participants at the time they cease to be a director for any reason. The number of DSUs to be granted to a participant shall be calculated by dividing the amount of fees selected by the director by the market price on the grant date. The market price is defined in the LTIP as the volume weighted average trading price of a common share of the Corporation for the five trading days prior to the grant date.

Each participant shall be entitled to receive, subsequent to the effective date the participant ceases to be a director for any reason, either (a) that number of common shares of the Corporation equal to the number of DSUs granted to such participant, or (b) a cash payment in an amount equal to the market price of the DSUs granted to such participant on the trading day following the day the participant ceases to be a director, net of applicable withholdings, and subject to adjustments if the value of a DSU is determined during applicable black-out periods. Upon death of a participant, such participant's estate shall be entitled to receive a cash payment or common shares of the Corporation that would otherwise have been payable upon such participant ceasing to be a director.

### Approval Required

The text of the ordinary resolution approving the LTIP is set forth at Appendix "B" to this Proxy Circular. To be effective, the resolution must be passed by the majority of votes cast by shareholders present or represented by proxy at the Meeting. **The persons named in the enclosed form of proxy intend to vote at the Meeting IN FAVOUR of this resolution, unless the shareholder has specified in the form of proxy that its shares are to be voted against the resolution.**

## **INTEREST OF CERTAIN PERSONS IN MATTERS TO BE ACTED UPON**

Except as otherwise disclosed herein, no director, proposed director or officer of the Corporation, or any associate or affiliate of such director, proposed director or officer, has any material interest, direct or indirect, by way of beneficial ownership of common shares of the Corporation or otherwise, in any matter to be acted upon at the Meeting, other than the election of directors or the appointment of auditors of the Corporation.

The Corporation entered into an agreement with TKC Office and Management Services Ltd. ("TKC") dated March 19, 2007 (the "**Office Agreement**"), wherein TKC has agreed to provide the Corporation with packaged office services effective

January 1, 2007 for a term of three years at a monthly rate of \$7,500 per month, which includes rent, office furniture and equipment and utilities. The Office Agreement may be terminated by either party upon 30 days' written notice to the other party. The Office Agreement replaces an informal office services arrangement between the Corporation and TKC which was in effect from August 1, 2006 to December 31, 2006 on substantially identical terms. Mr. Wasilenkoff is an officer, director and sole shareholder of TKC. On June 1<sup>st</sup>, 2008 the Corporation terminated the agreement with TKC Office and Management Services Ltd.

In connection with Dr. Alfonso Ciotola's appointment as Chief Operating Officer of the Corporation on March 1, 2007, Dr. Ciotola terminated his sales agency agreement with Landqart dated May 30, 2003. On April 2, 2007, Landqart entered into a sales agency agreement with Carta Plus f.z.e., a corporation organized under the laws of the United Arab Emirates of which a relative of Dr. Ciotola is an officer, director and shareholder. The terms of the sales agency agreement were reviewed and approved by the board of Landqart and are consistent with Landqart's other sales arrangements. All future dealings by Landqart relating to Carta Plus f.z.e. will be reviewed and approved by the board of Landqart and will not involve the participation of Dr. Ciotola.

### **INTEREST OF INFORMED PERSONS IN MATERIAL TRANSACTIONS**

Except as otherwise disclosed herein, no insider of the Corporation, nor the proposed nominees for election as directors of the Corporation, nor any associate or affiliate of such insider or proposed nominees, has any material interest, direct or indirect, in any transaction since the beginning of the last financial year of the Corporation, or in any proposed transaction which has materially affected or will materially affect the Corporation or any of its subsidiaries.

### **REGISTRAR AND TRANSFER AGENT**

The registrar and transfer agent of the Corporation is Computershare, 510 Burrard Street, 3<sup>rd</sup> Floor, Vancouver, British Columbia V6C 3B9.

### **OTHER BUSINESS**

Management of the Corporation knows of no other matters to come before the Meeting other than as referred to in the Notice of Meeting. However, if any other matter(s) which are not known to management of the Corporation shall properly come before the Meeting, the Proxy given pursuant to the solicitation by management of the Corporation will be voted on such matter(s) in accordance with the best judgment of the person(s) voting the Proxy.

### **ADDITIONAL INFORMATION**

Additional information relating to the Corporation is available on SEDAR at [www.sedar.com](http://www.sedar.com). Shareholders may contact the Corporation to request copies of the Corporation's financial statements and MD&A by sending a written request to 2nd Floor, 157 Chadwick Court, North Vancouver, British Columbia, Canada V7M 3K2, Attention: Secretary. Financial information is provided in the Corporation's comparative financial statements and MD&A for its fiscal year ended December 31, 2008, which are also available on SEDAR.

**APPROVAL OF PROXY CIRCULAR**

The undersigned hereby certifies that the contents and the sending of this Proxy Circular have been approved by the directors of the Corporation.

DATED at Vancouver, British Columbia, Canada, this 26 day of March, 2009.

**BY ORDER OF THE BOARD OF DIRECTORS OF  
FORTRESS PAPER LTD.**

*/s/ Chadwick Wasilenkoff* \_\_\_\_\_

Chadwick Wasilenkoff

Chairman, Chief Executive Officer, President and Director

## **APPENDIX A**

### **FORTRESS PAPER LTD.**

#### **BOARD OF DIRECTORS' MANDATE**

##### **1. PURPOSE**

- 1.1 The Board of Directors (the "Board") of Fortress Paper Ltd. (the "Company") wishes to formalize the guidelines pursuant to which the Board governs the business of the Company. The guidelines are intended to be flexible and are intended to provide parameters and direction to the Board in conjunction with its obligations and mandate to oversee and direct the affairs of the Company.
- 1.2 The Board is responsible for the overall stewardship of the Company and for managing and supervising the management of the Company. The Board does not conduct day-to-day management of the Company; that is the responsibility of the Officers. The Board shall at all times act in the best interests of the Company.

##### **2. RESPONSIBILITIES**

- 2.1 In discharging its responsibility, among other things, the Board should:
- (i) require management to develop and maintain a strategic planning process which takes into account, among other things, the opportunities and risks of the Company's business and to bring its strategic and operating plans to the Board for review and approval on an annual basis or such other basis as may be required by the Board;
  - (ii) approve all capital plans and establish priorities in the allocation of funds for major capital projects on an annual basis or such other basis as may be required by the Board;
  - (iii) identify the principal risks of the Company's business and require management to implement appropriate procedures and systems to manage such risks;
  - (iv) plan for senior management succession, including the appointment of and monitoring of senior management's performance;
  - (v) require senior management to develop and maintain a strategy to communicate effectively with its security holders, investment analysts and the public generally and to accommodate and address feedback from security holders;
  - (vi) require management to maintain internal control and management information systems and, through Board committees or otherwise, to monitor these systems as it considers fit;
  - (vii) require senior management to implement systems to ensure the Company operates within applicable laws and regulations;
  - (viii) review actual results achieved by the Company against the objectives contained in the Company's plans and implement or cause to be implemented corrective action where indicated;
  - (ix) arrange for the operating results of the Company to be presented by management to the Board on a regular basis;
  - (x) require that the Board be kept reasonably informed of the Company's activities and performance and take appropriate action to correct inadequate performance;

- (xi) authorize the issuance of equity and debt securities of the Company;
- (xii) approve all public disclosure by the Company including press releases, financial results, management's discussion and analysis, material change reports, registration statements, prospectuses and other public continuous disclosure documents, other than: (a) press releases and public disclosure in the ordinary course of the Company's operations which do not include any earnings announcements, which may be approved by the Company's Chief Executive Officer, President and Chief Financial Officer, in consultation with the Company's legal counsel; and (b) press releases resulting from emergency or urgent situations which may be approved by the Company's Chief Executive Officer, President and Chief Financial Officer, in consultation with the Company's legal counsel;
- (xiii) review and consider all reports and recommendations of the Compensation and Corporate Governance Committee and approve all compensation of Officers (including the Chief Executive Officer) and Directors;
- (xiv) require that proper procedures are established for the protection of shareholder value;
- (xv) ensure policies and procedures are in place to ensure the Company's compliance with applicable law, including timely disclosure of relevant corporate information and regulatory reporting; and
- (xvii) to the extent feasible, satisfy itself as to the integrity of the Chief Executive Officer and other executive officers and that the Chief Executive Officer and other executive officers create a culture of integrity throughout the Company.

2.2 The Board will give direction and guidance to management and will also keep management informed of its evaluation of the performance of the Company and of its senior Officers in achieving and carrying out the Board's established goals and policies, and in advising management of any remedial action or changes which it may consider to be necessary.

### **3. ORGANIZATION OF THE BOARD**

3.1 The composition of the Board shall comply with applicable corporate and securities laws.

3.2 Each year the Board shall review the relationship that each member of the Board has with the Company in order to satisfy itself that the relevant independence criteria have been met.

3.3 The Board members are expected to devote the time and attention to the Company's business and affairs necessary to discharge their duties as members of the Board effectively, which includes, but is not limited to, attendance at Board meetings and the review of any materials prepared in connection with such meetings. Subject to this requirement, the Board members shall not be subject to any restrictions with respect to their activities outside of their relationship with the Company, including their services as directors of other corporations or charitable organizations so long as such is in accordance with all of the Company's other policies and charters.

3.4 The Board may:

- (i) appoint one or more committees of the Board, however designated, and delegate to any such committee any of the powers of the Board except those which pertain to items which, under the *Business Corporations Act* (British Columbia) (the "Act"), a committee of the Board has no authority to exercise;
- (ii) appoint a Chairman of the Board and prescribe his or her powers and duties;
- (iii) appoint a Lead Director of the Board and prescribe his or her powers and duties;
- (iv) appoint a Chief Executive Officer and prescribe his or her powers and duties;
- (v) appoint a President and prescribe his or her powers and duties; and

- (vi) in conjunction with the Chief Executive Officer, appoint the Officers of the Company and prescribe their powers and duties.
- 3.5 The Board may appoint a day or days in any month or months for regular meetings of the Board at a place and hour to be named. A copy of any resolution of the Board fixing the place and time of such regular meetings shall be sent to each member of the Board forthwith after being passed, but no other notice shall be required for any such regular meetings except where the Act requires the purpose thereof or the business to be transacted thereat to be specified.
- 3.6 In the event of a change of the status or credentials underlying a Board member's appointment to the Board, the member so affected should, on his or her own initiative, discuss the change with the Chairman so that there is an opportunity for the Board to review the continued appropriateness of Board membership under his or her new circumstances. Each case will be dealt with on its own merits, but as a rule, a member of the Board is expected to tender his or her resignation if there is a change in his or her credentials and circumstances.
- 3.7 Unless specified otherwise, the following procedural rules apply to committees of the Board:
- (i) The Board may appoint one or more committees of the Board, however designated, and delegate to any such committee any of the powers of the Board except those which pertain to items which, under the Act, a committee of the Board has no authority to exercise;
  - (ii) The powers of a committee of the Board may be exercised by a meeting at which a quorum is present or by resolution in writing signed by all members of such committee who would have been entitled to vote on that resolution at a meeting of the committee. Meetings of any such committee may be held at any place in or outside Canada;
  - (iii) The Board may from time to time appoint such advisory bodies as it may deem advisable; and
  - (iv) Each committee and advisory body shall have the power to fix its quorum at not less than a majority of its members, to elect its chairman, and to regulate its procedure.
- 3.8 The Board currently consists of six directors. The Board shall have a minimum of three (3) and a maximum of twenty (20) directors, the number of directors within that range to be fixed by resolution of the Board from time to time. The size of the Board should enable its members to effectively and responsibly discharge their responsibilities to the Company.
- 3.9 Except as set out in the Articles of the Company, Board members shall be elected at the annual meeting of shareholders of the Company each year and shall serve until their successors are duly elected.

#### **4. RESOURCES, MEETING AND REPORTS**

The Board shall have adequate resources to discharge its responsibilities. The Chairman shall be empowered to engage advisors as may be appropriate from time to time to advise the Chairman on the Board with respect to duties and responsibilities.

The Board shall meet not less than four times per year.

The meetings of the Board shall ordinarily include the Chief Executive Officer (if not a Director) and shall periodically include other senior officers as may be appropriate and as may be desirable to enable the Board to become familiar with the Company's management team and affairs.

The Chairman shall act as, or appoint a Secretary, who shall keep minutes of its meetings in which shall be recorded all actions taken by the Board. Such minutes shall be made available to the Directors and shall be approved by the Board for entry in the records of the Company.



Each Director is expected to be diligent in preparing for and attending meetings of the Board and any Committee of which he or she is a member. A Director who is unable to attend a Board or Committee meeting may participate by teleconference.

Members of the Board shall have the right, for the purposes of discharging their respective powers and responsibilities, to inspect the relevant records of the Company and its subsidiaries.

Members of the Board, subject to approval of the Chairs of the Governance and Compensation Committees, may retain separate counsel to deal with issues relating to their responsibilities as members of the Board.

## **APPENDIX B**

### **RESOLUTION OF THE SHAREHOLDERS OF FORTRESS PAPER LTD. APPROVAL OF LONG-TERM INCENTIVE PLAN**

#### **RESOLVED AS AN ORDINARY RESOLUTION THAT:**

1. The long-term incentive plan, substantially in form attached at Appendix "C" of the management information circular of Fortress Paper Ltd. (the "Corporation") dated March 26, 2009 which accompanies the Notice of Meeting dated March 26, 2009, be and is hereby approved, ratified and affirmed; and
2. Any director or officer of the Corporation be and is hereby authorized to take all such further actions and to execute and deliver all such further instrument and documents, in the name and on behalf of the Corporation, as may be necessary, proper or advisable in order to carry out and give full effect to the foregoing.

## APPENDIX C

### FORTRESS PAPER LTD.

#### 2009 LONG-TERM INCENTIVE PLAN

##### SECTION 1. PURPOSE OF THE PLAN

The purpose of this Plan is to promote the long-term success of the Company and the creation of shareholder value by (a) encouraging the attraction and retention of Directors and Key Employees of the Company and its Subsidiaries, (b) encouraging such Directors and Key Employees to focus on critical long-term objectives, and (c) promoting greater alignment of the interests of such Directors and Key Employees with the interests of the Company.

To this end, the Plan provides for the grant of restricted share units, performance share units and deferred share units to Key Employees and Directors of the Company.

##### SECTION 2. DEFINITIONS

As used in the Plan, the following terms shall have the meanings set forth below:

- (a) "**Associate**" has the meaning ascribed thereto in the *Securities Act* (British Columbia);
- (b) "**Award**" means any award of Restricted Share Units, Performance Share Units or Deferred Share Units granted under the Plan;
- (c) "**Award Agreement**" means any written agreement, contract, or other instrument or document, including an electronic communication, as may from time to time be designated by the Company as evidencing any Award granted under the Plan;
- (d) "**Board**" means the board of directors of the Company;
- (e) "**Change of Control**" means the acquisition by any person or by any person and a joint actor, whether directly or indirectly, of voting securities (as such terms are interpreted in the *Securities Act*) of the Company, which, when added to all other voting securities of the Company at the time held by such person or by such person and a person acting "jointly or in concert with" another person, as that phrase is interpreted in Multilateral Instrument 64-101, totals for the first time not less than twenty percent (20%) of the outstanding voting securities of the Company or the votes attached to those securities are sufficient, if exercised, to elect a majority of the Board;
- (f) "**Committee**" means the Compensation Committee of the Board;
- (g) "**Company**" means Fortress Paper Ltd., a company existing pursuant to the provisions of the *Business Corporations Act* (British Columbia);
- (h) "**Deferred Share Unit**" means a right to receive on a deferred basis a payment in either Shares or cash as provided in Section 5(c) hereof and subject to the terms and conditions of this Plan;
- (i) "**Determination Date**" means a date determined by the Board in its sole discretion but not later than 90 days after the expiry of a Performance Cycle;
- (j) "**Director**" means a member of the Board;

- (k) "**Disability**" means any medical condition which qualifies a Participant for benefits under a long-term disability plan of the Company or Subsidiary;
- (l) "**Election Form**" means the form to be completed by a Director specifying the amount of Fees he or she wishes to receive in Deferred Share Units under the Plan;
- (m) "**Eligible Person**" means Key Employees and Directors;
- (n) "**Fees**" means the annual board retainer, chair fees, meeting attendance fees or any other fees payable to a Director by the Company;
- (o) "**Grant Date**" means, for any Award, the date specified by the Board as the grant date at the time it grants the Award or, if no such date is specified, the date upon which the Award was actually granted;
- (p) "**Insider**" means any insider, as that term is defined in the *Securities Act* (British Columbia);
- (q) "**Insider Participant**" means a Participant who is (i) an Insider of the Company or of a Subsidiary, and (ii) an Associate of any person who is an Insider by virtue of (i);
- (r) "**Key Employees**" means employees, including officers, whether Directors or not, and including both full-time and part-time employees, of the Company or any Subsidiary who, by the nature of their positions or jobs are, in the opinion of the Board, in a position to contribute to the success of the Company;
- (s) "**Market Unit Price**" means the value of a Share determined by reference to the volume weighted average trading price of a Share for the immediately preceding five (5) Trading Days, provided that, if no Shares traded in any of the five (5) Trading Days prior to the applicable day, the average of the closing bid and ask prices shall be used instead of the closing price;
- (t) "**Participant**" means any Eligible Person to whom Awards under the Plan are granted;
- (u) "**Participant's Account**" means a notional account maintained for each Participant's participation in the Plan which will show any Restricted Share Units, Performance Share Units or Deferred Share Units credited to a Participant from time to time;
- (v) "**Performance Criteria**" means criteria established by the Board which, without limitation, may include criteria based on the Participant's personal performance and/or financial performance of the Company and its Subsidiaries, and that are to be used to determine the vesting of the Performance Share Units;
- (w) "**Performance Cycle**" means the three-year performance cycle of the Performance Share Units as specified by the Board in the applicable Award Agreement;
- (x) "**Performance Share Unit**" means a right awarded to a Participant to receive a payment in Shares as provided in Section 5(b) hereof and subject to the terms and conditions of this Plan;
- (y) "**Person**" means any individual, corporation, partnership, association, joint-stock company, trust, unincorporated organization, or governmental authority or body;
- (z) "**Restriction Period**" means the three-year period between the Grant Date and the Vesting Date of an Award of Restricted Share Units;
- (aa) "**Restricted Share Unit**" means a right awarded to a Participant to receive a payment in Shares as provided in Section 5(a) hereof and subject to the terms and conditions of this Plan;
- (bb) "**Retirement**" means retirement from active employment with the Company or a Subsidiary with the consent of an officer of the Company or the Subsidiary;

- (cc) "**Securities Act**" means the *Securities Act* (British Columbia), as amended, from time to time;
- (dd) "**Shares**" means the common shares of the Company;
- (ee) "**Security Based Compensation Arrangement**" has the meaning ascribed thereto in the TSX Company Manual;
- (ff) "**Subsidiary**" means a corporation, company or partnership that is controlled, directly or indirectly, by the Company;
- (gg) "**Termination Date**" means (i) in the event of a Participant's Retirement, voluntary termination or termination of employment as a result of a Disability, the date on which such Participant ceases to be an employee of the Company or a Subsidiary and (ii) in the event of termination of the Participant's employment by the Company or a Subsidiary, the date on which such Participant is advised by the Company or a Subsidiary, in writing or verbally, that his or her services are no longer required;
- (hh) "**Trading Day**" means any date on which the TSX is open for trading;
- (ii) "**TSX**" means the Toronto Stock Exchange; and
- (jj) "**Vesting Date**" means in respect of any Award, the date when the Award is fully vested in accordance with the provisions of the Plan.

### **SECTION 3. ADMINISTRATION**

- (a) **BOARD TO ADMINISTER PLAN.** Except as otherwise provided herein, the Plan shall be administered by the Board and the Board shall have full authority to administer the Plan including the authority to interpret and construe any provision of the Plan and to adopt, amend and rescind such rules and regulations for administering the Plan as the Board may deem necessary in order to comply with the requirements of the Plan.
- (b) **DELEGATION TO COMMITTEE.** All of the powers exercisable hereunder by the Board may, to the extent permitted by applicable law and as determined by resolution of the Board, be delegated to and exercised by the Committee.
- (c) **INTERPRETATION.** All actions taken and all interpretations and determinations made or approved by the Board in good faith shall be final and conclusive and shall be binding on the Participants and the Company.
- (d) **NO LIABILITY.** No Director shall be personally liable for any action taken or determination or interpretation made or approved in good faith in connection with the Plan and the Directors shall, in addition to their rights as Directors, be fully protected, indemnified and held harmless by the Company with respect to any such action taken or determination or interpretation made. The appropriate officers of the Company are hereby authorized and empowered to do all things and execute and deliver all instruments, undertakings and applications and writings as they, in their absolute discretion, consider necessary for the implementation of the Plan and of the rules and regulations established for administering the Plan. All costs incurred in connection with the Plan shall be for the account of the Company.

### **SECTION 4. SHARES AVAILABLE FOR AWARDS**

- (a) **LIMITATIONS ON SHARES AVAILABLE FOR ISSUANCE.**
  - (i) The aggregate number of Shares issuable under the Plan in respect of Awards, together with Shares reserved for issuance under all of the Company's other Security-Based Compensation Arrangements, shall not exceed ten (10) percent of the Company's issued and outstanding Shares;

- (ii) The total number of Shares issuable to any Participant under the Plan, at any time, together with Shares reserved for issuance to such Participant under all of the Company's other Security-Based Compensation Arrangements, shall not exceed five (5) percent of the issued and outstanding Shares;
  - (iii) The total number of Shares issuable to all Insider Participants within any one-year period and at any time under the Plan, together with Shares reserved for issuance to such Participant under all of the Company's other Security-Based Compensation Arrangements, shall not exceed ten (10) percent of the issued and outstanding Shares; and
  - (iv) The total number of Shares issuable to non-executive Directors under the Plan shall not exceed one (1) percent of the issued and outstanding Shares.
- (b) **ACCOUNTING FOR AWARDS.** For purposes of this Section 4:
- (i) If an Award is denominated in Shares, the number of Shares covered by such Award, or to which such Award relates, shall be counted on the Grant Date of such Award against the aggregate number of Shares available for granting Awards under the Plan; and
  - (ii) Notwithstanding anything herein to the contrary, any Shares related to Awards which terminate by expiration, forfeiture, cancellation, or otherwise without the issuance of such Shares, are settled in cash in lieu of Shares, or are exchanged with the Board's permission, prior to the issuance of Shares, for Awards not involving Shares, shall be available again for granting Awards under the Plan.
- (c) **ANTI-DILUTION.** If the number of outstanding Shares is increased or decreased as a result of a stock split, consolidation or recapitalization and not as a result of the issuance of Shares for additional consideration or by way of stock dividend, the Board may make appropriate adjustments to the number of Restricted Share Units, Performance Share Units and/or Deferred Share Units credited to a Participant. Any determinations by the Board as to the required adjustments shall be made in its sole discretion and all such adjustments shall be conclusive and binding for all purposes under the Plan.

## **SECTION 5. AWARDS**

- (a) **RESTRICTED SHARE UNITS**
- (i) **ELIGIBILITY AND PARTICIPATION.** Subject to the provisions of the Plan and such other terms and conditions as the Board may prescribe, the Board may, from time to time, grant Awards of Restricted Share Units to Directors and Key Employees. Restricted Share Units granted to a Participant shall be credited, as of the Grant Date, to the Participant's Account. The number of Restricted Share Units to be credited to each Participant shall be determined by the Board in its sole discretion in accordance with the Plan. Each Restricted Share Unit shall, contingent upon the lapse of any restrictions, represent one (1) Share. The number of Restricted Share Units granted pursuant to an Award and the Restriction Period in respect of such Restricted Share Units shall be specified in the applicable Award Agreement.
  - (ii) **RESTRICTIONS.** Restricted Share Units shall be subject to such restrictions as the Board, in its sole discretion, may establish in the applicable Award Agreement, which restrictions may lapse separately or in combination at such time or times and on such terms, conditions and satisfaction of objectives as the Board may, in its discretion, determine at the time an Award is granted.
  - (iii) **VESTING.** All Restricted Share Units will vest and become payable by the issuance of Shares on the third anniversary of their Grant Date at the end of the Restriction Period if all applicable restrictions have lapsed, unless the Award Agreement provides otherwise.
  - (iv) **CHANGE OF CONTROL.** In the event of a Change of Control, all restrictions upon any Restricted Share Units shall lapse immediately and all such Restricted Share Units shall become fully vested in

the Participant and the Participant shall be entitled to receive payment in accordance with Section 5(a)(viii) hereof.

- (v) DEATH. Upon the death of a Participant, any Restricted Share Units granted to such Participant, which, prior to the Participant's death have not vested, will immediately vest and the Participant's estate shall be entitled to receive payment in accordance with Section 5(a)(viii) hereof.
  - (vi) TERMINATION OF EMPLOYMENT.
    - i. Where, in the case of a Key Employee, a Participant's employment is terminated by the Company or a Subsidiary for cause, all Restricted Share Units granted to the Participant under the Plan will immediately terminate without payment, be forfeited and cancelled and shall be of no further force or effect as of the Termination Date.
    - ii. Where, in the case of a Key Employee, a Participant's employment terminates by reason of termination by the Company or a Subsidiary without cause or by voluntary termination by the Participant, any Restricted Share Units granted to the Participant under the Plan will immediately terminate without payment, be forfeited and cancelled and shall be of no further force or effect as of the Termination Date.
    - iii. Where, in the case of a Key Employee, a Participant's employment terminates due to Retirement or in connection with a Disability, all Restricted Share Units granted to the Participant under the Plan will continue to vest in accordance with the terms of such Restricted Share Units and the applicable Restriction Period and shall become payable in accordance with Section 5(a)(viii) hereof on the applicable Vesting Date.
    - iv. Upon termination of a Participant's employment with the Company or a Subsidiary, the Participant's eligibility to receive further grants of Awards of Restricted Share Units under the Plan shall cease as of the Termination Date.
  - (vii) CESSATION OF DIRECTORSHIP. Where, in the case of Directors, a Participant ceases to be a Director for any reason, any Restricted Share Units granted to the Participant under the Plan that have not yet vested, will continue to vest in accordance with the terms of such Restricted Share Units and the applicable Restriction Period and shall become payable in accordance with Section 5(a)(viii) hereof on the applicable Vesting Date.
  - (viii) PAYMENT OF AWARD. As soon as practicable after each Vesting Date of an Award of Restricted Share Units, the Company shall issue from treasury to the Participant, or if Section 5(a)(v) applies, to the Participant's estate, a number of Shares equal to the number of Restricted Share Units credited to the Participant's Account that become payable on the Vesting Date. As of the Vesting Date, the Restricted Share Units in respect of which such Shares are issued shall be cancelled and no further payments shall be made to the Participant under the Plan in relation to such Restricted Share Units.
- (b) PERFORMANCE SHARE UNITS
- (i) ELIGIBILITY AND PARTICIPATION. Subject to the provisions of the Plan and such other terms and conditions as the Board may prescribe, the Board may, from time to time, grant Awards of Performance Share Units to Key Employees. Performance Share Units granted to a Participant shall be credited, as of the Grant Date, to the Participant's Account. The number of Performance Share Units to be credited to each Participant shall be determined by the Board, in its sole discretion, in accordance with the Plan. Each Performance Share Unit shall, contingent upon the attainment of the Performance Criteria within the Performance Cycle, represent one (1) Share. The number of Performance Share Units granted pursuant to an Award, the Performance Criteria which must be satisfied in order for the Performance Share Units to vest and the Performance Cycle in respect of such Performance Share Units shall be specified in the applicable Award Agreement.

- (ii) **PERFORMANCE CRITERIA.** The Board will select, settle and determine the Performance Criteria (including without limitation the attainment thereof), for purposes of the vesting of the Performance Share Units, in its sole discretion. An Award Agreement may provide the Board with the right, during a Performance Cycle or after it has ended, to revise the Performance Criteria and the Award amounts, if unforeseen events (including, without limitation, changes in capitalization, an equity restructuring, an acquisition or a divestiture) occur which have a substantial effect on the financial results and which in the sole judgment of the Board make the application of the Performance Criteria unfair unless a revision is made. Notices will be provided by the Company to applicable regulatory authorities or stock exchanges as may be required with respect of the foregoing.
- (iii) **VESTING.** All Performance Share Units will vest and become payable to the extent that the Performance Criteria set forth in the Award Agreement are satisfied for the Performance Cycle, the determination of which satisfaction shall be made by the Board on the Determination Date.
- (iv) **CHANGE OF CONTROL.** In the event of a Change of Control, all Performance Share Units granted to Participant shall become fully vested in such Participant (without regard to the attainment of any Performance Criteria) and the Participant shall be entitled to receive payment in accordance with Section 5(b)(vii) hereof.
- (v) **DEATH.** Upon the death of a Participant, all Performance Share Units granted to Participant shall become fully vested in such Participant (without regard to the attainment of any Performance Criteria) and the Participant's estate shall be entitled to receive payment in accordance with Section 5(b)(vii) hereof.
- (vi) **TERMINATION OF EMPLOYMENT.**
  - i. Where a Participant's employment is terminated by the Company or a Subsidiary for cause, all Performance Share Units granted to the Participant under the Plan will immediately terminate without payment, be forfeited and cancelled and shall be of no further force or effect as of the Termination Date.
  - ii. Where a Participant's employment is terminated by the Company or a Subsidiary without cause or by voluntary termination, all Performance Share Units granted to the Participant under the Plan will immediately terminate without payment, be forfeited and cancelled and shall be of no further force or effect as of the Termination Date.
  - iii. Where a Participant's employment terminates due to Retirement or in connection with a Disability, the Board shall determine, in its sole discretion, the number of the Participant's Performance Share Units that will vest based on the extent to which the applicable Performance Criteria set forth in the Award Agreement have been satisfied in that portion of the Performance Cycle that has lapsed. The Performance Share Units that the Board determines so have vested shall become payable in accordance with Section 5(b)(vii) hereof.
  - iv. Upon termination of a Participant's employment with the Company or a Subsidiary, the Participant's eligibility to receive further grants of Awards of Performance Share Units under the Plan shall cease as of the Termination Date.
- (vii) **PAYMENT OF AWARD.** Payment to Participants in respect of vested Performance Share Units shall be made after the Determination Date for the applicable Award and in any case within ninety-five (95) days after the last day of the Performance Cycle to which such Award relates. Such payments shall be made entirely in Shares. The Company shall issue from treasury to the Participant, or if Section 5(b)(v) applies, to the Participant's estate, a number of Shares equal to the number of Performance Share Units that have vested. As of the Vesting Date, the Performance Share Units in respect of which such Shares are issued shall be cancelled and no further payments shall be made to the Participant under the Plan in relation to such Performance Share Units.



(c) DEFERRED SHARE UNITS

- (i) **ELIGIBILITY AND PARTICIPATION.** Subject to the provisions of the Plan and such other terms and conditions as the Board may prescribe, the Board may, from time to time, grant Awards of Deferred Share Units to Directors in lieu of Fees. Directors become Participants effective as of the date he or she is first appointed or elected as a Director and cease to be Participants at the time they cease to be a Director for any reason. Deferred Share Units granted to a Participant in accordance with Section 5(c)(3) hereof, shall be credited, as of the Grant Date, to the Participant's Account.
- (ii) **ELECTION.** Each Director may elect to receive any or all of his or her Fees in Deferred Share Units under this Plan. Elections by Participants regarding the amount of their Fees that they wish to receive in Deferred Share Units shall be made no later than 90 days after the Plan is adopted by the Board, and thereafter no later than December 31 of any given year with respect to Fees for the following year. Any Director who becomes a Participant during a calendar year and wishes to receive an amount of his or her Fees for the remainder of that year in Deferred Share Units must make his or her election within 60 days of becoming a Director.
- (iii) **CALCULATION.** The number of Deferred Share Units to be credited to the Participant's Account shall be calculated by dividing the amount of Fees selected by a Director in the applicable Election Form, by the Market Unit Price on the Grant Date which shall be the 10<sup>th</sup> business day following each financial quarter end. If, as a result of the foregoing calculation, a Participant shall become entitled to a fractional Deferred Share Unit, the Participant shall only be credited with a full number of Deferred Share Units (rounded down) and no payment or other adjustment will be made with respect to the fractional Deferred Share Unit.
- (iv) **PAYMENT OF AWARD.** Each Participant shall be entitled to receive, after the effective date the Participant ceases to be a Director for any reason, on a day designated by the Participant and communicated to the Company by the Participant in writing at least 15 days prior to the designated day (or such earlier date after the Participant ceases to be a Director as the Participant and the Company may agree, which date shall be no later than the end of the calendar year following the year in which the Participant ceases to be a Director) and if no such notice is given, then on the first anniversary of the effective date the Participant ceases to be a Director, at the sole discretion of the Board, either:
  - i. That number of Shares equal to the number of Deferred Share Units credited to the Participant's Account, such Shares to be issued from treasury of the Company; or
  - ii. A cash payment in an amount equal to the Market Unit Price on the next Trading Day after the Participant ceases to be a Director of the Deferred Share Units credited to a Participant's Account, net of applicable withholdings.
- (v) **EXCEPTION.** In the event the value of a Deferred Share Unit would be determined with reference to a period commencing at a fiscal quarter-end of the Company and ending prior to the public disclosure of interim financial statements for the quarter (or annual financial statements in the case of the fourth quarter), the cash payment of the value of the Units will be made to the Participant with reference to the five (5) Trading Days immediately following the public disclosure of the interim financial statements for that quarter (or annual financial statements in the case of the fourth quarter).
- (vi) **DEATH.** Upon death of a Participant, the Participant's estate shall be entitled to receive, within 120 days after the Participant's death and at the sole discretion of the Board, a cash payment or Shares that would have otherwise been payable in accordance with Section 5(c)(iv) hereof to the Participant upon such Participant ceasing to be Director.
- (vii) **DEDUCTIONS.** Whenever cash is to be paid on redemption of Deferred Share Units, the Company shall have the right to deduct from all cash payments made to a Participant any taxes required by law to be withheld with respect to such payments. Whenever Shares are to be delivered on redemption of

Deferred Share Units the Company shall have the right to deduct from any other amounts payable to the Participant any taxes required by law to be withheld with respect to such delivery of Shares, or if any payment due the Participant is not sufficient to satisfy the withholding obligation, to require the Participant to remit to the Company in cash an amount sufficient to satisfy any taxes required by law to be withheld. At the sole discretion of the Board, a Participant may be permitted to satisfy the foregoing requirement by

- i. electing to have the Company withhold from delivery Shares having a value equal to the amount of tax required to be withheld, or
- ii. delivering (on a form prescribed by the Company) an irrevocable direction to a securities broker approved by the Company to sell all or a portion of the Shares and to deliver to the Company from the sales proceeds an amount sufficient to pay the required withholding taxes.

(d) GENERAL TERMS APPLICABLE TO AWARDS

- (i) **AWARDS MAY BE GRANTED SEPARATELY OR TOGETHER.** Awards may, in the discretion of the Board, be granted either alone or in addition to, in tandem with, or in substitution for any other Award or any award granted under any other Security-Based Compensation Arrangement of the Company or any Subsidiary. Awards granted in addition to or in tandem with other Awards, or in addition to or in tandem with awards granted under any other Security-Based Compensation Arrangement of the Company or any Subsidiary, may be granted either at the same time as or at a different time from the grant of such other Awards or awards.
- (ii) **NON-TRANSFERABILITY OF AWARDS.** Except as otherwise provided in an Award Agreement or determined by the Board in its sole discretion, no Award and no right under any such Award, shall be assignable, alienable, saleable, or transferable by a Participant otherwise than by will or by the laws of descent and distribution. No Award and no right under any such Award, may be pledged, alienated, attached, or otherwise encumbered, and any purported pledge, alienation, attachment, or encumbrance thereof shall be void and unenforceable against the Company.
- (iii) **CONDITIONS AND RESTRICTIONS UPON SECURITIES SUBJECT TO AWARDS.** The Board may provide that the Shares issued under an Award shall be subject to such further agreements, restrictions, conditions or limitations as the Board in its discretion may specify, including without limitation, conditions on vesting or transferability and forfeiture or repurchase provisions or provisions on payment of taxes arising in connection with an Award. Without limiting the foregoing, such restrictions may address the timing and manner of any resales by the Participant or other subsequent transfers by the Participant of any Shares issued under an Award, including without limitation: (A) restrictions under an insider trading policy or pursuant to applicable law, (B) restrictions designed to delay and/or coordinate the timing and manner of sales by Participant and holders of other Company Security-Based Compensation Arrangements, (C) restrictions as to the use of a specified brokerage firm for such resales or other transfers and (D) provisions requiring Shares to be sold on the open market or to the Company in order to satisfy tax withholding or other obligations.
- (iv) **SHARE CERTIFICATES.** All Shares delivered under the Plan pursuant to any Award shall be subject to such stop transfer orders and other restrictions as the Board may deem advisable under the Plan or the rules, regulations, and other requirements of any securities commission, stock exchange upon which such Shares are then listed, and any applicable securities legislation, regulations, rules, policies or orders, and the Board may cause a legend or legends to be put on any such certificates to make appropriate reference to such restrictions.
- (v) **CONFORMITY TO PLAN.** In the event an Award is granted which does not conform in all particulars with the provisions of the Plan, or purports to grant an Award on terms different from

those set out in the Plan, the Award shall not be in any way void or invalidated, but the Award shall be adjusted to become, in all respects, in conformity with the Plan.

## **SECTION 6. AMENDMENT AND TERMINATION**

- (a) **AMENDMENTS AND TERMINATION OF THE PLAN.** The Board may at any time or from time to time, in its sole and absolute discretion and without the approval of shareholders of the Company, amend, suspend, terminate or discontinue this Plan and may amend the terms and conditions of any Units granted hereunder, subject to (a) any required approval of any applicable regulatory authority or the TSX, and (b) approval of shareholders of the Company as required by the rules of the TSX or applicable law provided that shareholder approval shall not be required for the following amendments and the Board may make any changes which may include but are not limited to:
- (i) Amendments of a "housekeeping nature";
  - (ii) Any amendment for the purpose of curing any ambiguity, error or omission in the Plan or to correct or supplement any provision of the Plan that is inconsistent with any other provision of the Plan;
  - (iii) An amendment which is necessary to comply with applicable law or the requirements of any stock exchange on which the Shares are listed;
  - (iv) Amendments respecting administration and eligibility for participation under the Plan;
  - (v) Changes to the terms and conditions on which Awards may be or have been granted pursuant to the Plan including changes to the vesting provisions and terms of any Awards;
  - (vi) Any amendment which alters, extends or accelerates the terms of vesting applicable to any Award; and
  - (vii) Changes to the termination provisions of an Award or the Plan which do not entail an extension beyond the original fixed term.

If the Plan is terminated, prior Awards shall remain outstanding and in effect in accordance with their applicable terms and conditions.

- (b) **AMENDMENTS TO AWARDS.** The Board may waive any conditions or rights under, amend any terms of, or amend, alter, suspend, discontinue, or terminate, any Awards theretofore granted, prospectively or retroactively. No such amendment or alteration shall be made which would impair the rights of any Participant, without such Participant's consent, under any Award theretofore granted, provided that no such consent shall be required with respect to any amendment or alteration if the Board determines in its sole discretion that such amendment or alteration either (i) is required or advisable in order for the Company, the Plan or the Award to satisfy or conform to any law or regulation or to meet the requirements of any accounting standard, or (ii) is not reasonably likely to significantly diminish the benefits provided under such Award.

## **SECTION 7. GENERAL PROVISIONS**

- (a) **NO RIGHTS TO AWARDS.** No Key Employee, Director or other Person shall have any claim to be granted any Award under the Plan, or, having been selected to receive an Award under this Plan, to be selected to receive a future Award, and further there is no obligation for uniformity of treatment of Key Employees, Directors or holders or beneficiaries of Awards under the Plan. The terms and conditions of Awards need not be the same with respect to each recipient.
- (b) **WITHHOLDING.** The Company shall be authorized to withhold from any Award granted or any payment due or transfer made under any Award or under the Plan the amount (in cash, Shares, other securities, or other Awards) of withholding taxes due in respect of an Award, its exercise, or any payment or transfer

under such Award or under the Plan and to take such other action as may be necessary in the opinion of the Company to satisfy statutory withholding obligations for the payment of such taxes.

- (c) **NO LIMIT ON OTHER SECURITY-BASED COMPENSATION ARRANGEMENTS.** Nothing contained in the Plan shall prevent the Company or a Subsidiary from adopting or continuing in effect other Security-Based Compensation Arrangements, and such arrangements may be either generally applicable or applicable only in specific cases.
- (d) **NO RIGHT TO EMPLOYMENT.** The grant of an Award shall not constitute an employment contract nor be construed as giving a Participant the right to be retained in the employ of the Company. Further, the Company may at any time dismiss a Participant from employment, free from any liability, or any claim under the Plan, unless otherwise expressly provided in the Plan or in any Award Agreement.
- (e) **NO RIGHT AS SHAREHOLDER.** Neither the Participant nor any representatives of a Participant's estate shall have any rights whatsoever as shareholder in respect of any Shares covered by such Participant's Restricted Share Units, Performance Share Units and/or Deferred Share Units until the date of issuance of a share certificate to such Participant or representatives of a Participant's estate for such Shares.
- (f) **GOVERNING LAW.** The validity, construction, and effect of the Plan and any rules and regulations relating to the Plan and all Awards shall be determined in accordance with the laws of the Province of British Columbia and applicable Federal laws of Canada without regard to conflict of law.
- (g) **SEVERABILITY.** If any provision of the Plan or any Award is or becomes or is deemed to be invalid, illegal, or unenforceable in any jurisdiction, or as to any Person or Award, or would disqualify the Plan or any Award under any law deemed applicable by the Board, such provision shall be construed or deemed amended to conform to applicable laws, or if it cannot be so construed or deemed amended without, in the determination of the Board, materially altering the intent of the Plan or the Award, such provision shall be stricken as to such jurisdiction, Person, or Award, and the remainder of the Plan and any such Award shall remain in full force and effect.
- (h) **NO TRUST OR FUND CREATED.** Neither the Plan nor any Award shall create or be construed to create a trust or separate fund of any kind or a fiduciary relationship between the Company and a Participant or any other Person. To the extent that any Person acquires a right to receive payments from the Company pursuant to an Award, such right shall be no greater than the right of any unsecured creditor of the Company.
- (i) **NO FRACTIONAL SHARES.** No fractional Shares shall be issued or delivered pursuant to the Plan or any Award, and the Board shall determine whether cash, or other securities shall be paid or transferred in lieu of any fractional Shares, or whether such fractional Shares or any rights thereto shall be cancelled, terminated, or otherwise eliminated.
- (j) **HEADINGS.** Headings are given to the Sections and subsections of the Plan solely as a convenience to facilitate reference. Such headings shall not be deemed in any way material or relevant to the construction or interpretation of the Plan or any provision thereof.
- (k) **NO REPRESENTATION OR WARRANTY.** The Company makes no representation or warranty as to the value of any Award granted pursuant to the Plan or as to the future value of any Shares issued pursuant to any Award.
- (l) **NO REPRESENTATIONS OR COVENANTS WITH RESPECT TO TAX QUALIFICATION.** Although the Company may endeavor to (i) qualify an Award for favourable Canadian tax treatment or (ii) avoid adverse tax treatment, the Company makes no representation to that effect and expressly disavows any covenant to maintain favorable or avoid unfavorable tax treatment. The Company shall be unconstrained in its corporate activities without regard to the potential negative tax impact on holders of Awards under the Plan.

- (m) **COMPLIANCE WITH LAWS.** The granting of Awards and the issuance of Shares under the Plan shall be subject to all applicable laws, rules, and regulations, and to such approvals by any governmental agencies or stock exchanges on which the Company is listed as may be required. The Company shall have no obligation to issue or deliver evidence of title for Shares issued under the Plan prior to:
- (i) obtaining any approvals from governmental agencies that the Company determines are necessary or advisable; and
  - (ii) completion of any registration or other qualification of the Shares under any applicable national or foreign law or ruling of any governmental body that the Company determines to be necessary or advisable or at a time when any such registration or qualification is not current, has been suspended or otherwise has ceased to be effective.

The inability or impracticability of the Company to obtain or maintain authority from any regulatory body having jurisdiction, which authority is deemed by the Company's counsel to be necessary to the lawful issuance and sale of any Shares hereunder shall relieve the Company of any liability in respect of the failure to issue or sell such Shares as to which such requisite authority shall not have been obtained.

**SECTION 8. EFFECTIVE DATE OF THE PLAN**

The Plan shall become effective upon the later of the date determined by the Board and the date of approval of the shareholders of the Company given by the affirmative vote of a majority of the Shares represented at the meeting of the shareholders of the Company at which a motion to approve the Plan is presented.

**SECTION 9. TERM OF THE PLAN**

The Plan shall terminate automatically 10 years after its adoption by the Board and may be terminated on any earlier date as provided in Section 6 hereof.