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**Canfor Pulp Income Fund** 

**NOTICE OF ANNUAL GENERAL AND SPECIAL MEETING  
OF UNITHOLDERS**

**to be held on April 27, 2010**

**and**

**INFORMATION CIRCULAR**

**with respect to a**

**PLAN OF ARRANGEMENT**

**involving**

**CANFOR PULP PRODUCTS INC., CANFOR PULP INCOME FUND AND  
CANFOR PULP INCOME FUND UNITHOLDERS**

**March 16, 2010**

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## NOTICE OF ANNUAL GENERAL AND SPECIAL MEETING OF UNITHOLDERS

To: The Unitholders of Canfor Pulp Income Fund

Notice is hereby given that, pursuant to an order (the "**Interim Order**") of the Supreme Court of British Columbia dated March 16, 2010, an annual general and special meeting (the "**Meeting**") of the holders of fund units ("**Unitholders**") of Canfor Pulp Income Fund (the "**Fund**") will be held in the Terrace B Room at the Terminal City Club, 837 West Hastings Street, Vancouver, British Columbia, on Tuesday, April 27, 2010 at 11:30 a.m. for the following purposes:

1. To consider pursuant to the Interim Order and, if thought advisable, to pass, with or without variation, a special resolution (the "**Arrangement Resolution**"), the full text of which is set forth in Appendix "A" to the accompanying information circular of the Fund dated March 16, 2010 (the "**Information Circular**"), to approve a plan of arrangement under Section 288 of the *Business Corporations Act* (British Columbia) (the "**Arrangement**") and all transactions contemplated thereby, all as more particularly described in the Information Circular;
2. To receive the report of the trustees of the Fund, the financial statements of the Fund for the period ended December 31, 2009 and the report of the Fund's auditors;
3. To elect three trustees for the ensuing year;
4. To appoint the auditors of the Fund for the ensuing year; and
5. To transact such other business as may properly come before the Meeting.

The Information Circular and a copy of the Annual Report of the Fund for the year ended December 31, 2009 accompany this Notice of Annual General and Special Meeting. The Information Circular contains details of matters to be considered at the Meeting. The Annual Report includes consolidated financial statements of the Fund for the year ended December 31, 2009 and the auditors' report thereon and the Management's Discussion and Analysis of Financial Condition and Results of Operations of the Fund.

The record date (the "**Record Date**") for determination of registered Unitholders entitled to receive notice of and vote at the Meeting is March 15, 2010. Only Unitholders whose names have been entered in the applicable register of Fund Units ("**Registered Unitholders**"), at the close of business on the Record Date will be entitled to receive notice of and vote at the Meeting. Unitholders who acquire units of the Funds ("**Fund Units**") after the Record Date will not be entitled to vote such units at the Meeting.

Registered Unitholders have the right to dissent with respect to the Arrangement and, if the Arrangement becomes effective, to have their Fund Units transferred to the Fund and cancelled in exchange for a cash payment from the Fund equal to the fair value of their Fund Units as of the day of the Meeting in accordance with the provisions of the Interim Order. A Registered Unitholder's right to dissent is more particularly described in the Information Circular. A non-Registered Unitholder who wishes to exercise the dissent rights must arrange for the Registered Unitholder(s) holding its Fund Units to deliver the Dissent Notice. **Failure to strictly comply with the requirements set forth in the Interim Order may result in the loss of any right of dissent.**

If, as of the Effective Date, the aggregate number of Fund Units in respect of which Unitholders have duly and validly exercised their rights of dissent under the Interim Order exceeds 1% of the Fund Units then outstanding, each of the Fund and Newco is entitled, in its discretion, to not complete the Arrangement.

**A Unitholder who is unable to attend the Meeting in person and who wishes to ensure that his or her units will be voted at the Meeting is requested to complete, date and sign the enclosed form of proxy and to deliver the form of proxy in accordance with the instructions set out in the form of proxy and the Information Circular.**

Dated at the City of Vancouver, in the Province of British Columbia, this 16th day of March, 2010.

By Order of the Trustees of the Fund

Terry D. Hodgins  
Secretary

## INFORMATION CIRCULAR

### INTRODUCTION

This Information Circular is furnished in connection with the solicitation of proxies by and on behalf of the Trustees of the Fund for use at the Meeting and any adjournment thereof. No Person has been authorized to give any information or make any representation in connection with the Arrangement or any other matters to be considered at the Meeting other than those contained in this Information Circular and, if given or made, any such information or representation must not be relied upon as having been authorized.

All summaries of, and references to, the Arrangement in this Information Circular are qualified in their entirety by reference to the complete text of the Plan of Arrangement, a copy of which is attached as Schedule A to the Arrangement Agreement, which agreement is attached as Appendix "C" to this Information Circular. You are urged to carefully read the full text of the Plan of Arrangement.

All capitalized terms used in this Information Circular but not otherwise defined herein have the meanings set forth under "Glossary of Terms" or elsewhere in the Information Circular. Information contained in this Information Circular is given as of March 16, 2010 unless otherwise specifically stated.

### FORWARD-LOOKING STATEMENTS

The Arrangement is a proposed transaction. Throughout this Information Circular, descriptions of the effect of the Arrangement which are made on a prospective basis (using words such as "will") are made as if the Arrangement is completed. The completion of the Arrangement is subject to a number of conditions which are described in this Information Circular and the Arrangement Agreement (which is attached as Appendix "C" to this Information Circular) and there is no assurance that it will be completed or, assuming it is completed, as to the timing of completion.

This Information Circular includes forward-looking statements within the meaning of applicable securities laws. These statements relate to analysis and other information that are based on forecasts of future results or events and estimates of amounts not yet determinable. The statements may involve, but are not limited to, comments relating to strategies, expectations, planned operations or future actions.

These forward-looking statements are identified by the use of terms and phrases such as "anticipate", "believe", "could", "estimate", "expect", "intend", "may", "plan", "predict", "project", "will", "would", and similar terms and phrases, including references to assumptions.

Forward-looking statements, by their nature, are based on assumptions and are subject to important risks and uncertainties. Any forecasts or forward-looking predictions or statements cannot be relied upon due to, amongst other things, changing external events and general uncertainties of the business and its corporate structure. Results indicated in forward-looking statements may differ materially from actual results for a number of reasons, including without limitation, the factors discussed under "Risk Factors" at page 42 of this Information Circular and "Risk Factors" in Appendix "E" to this Information Circular, as well as the other factors identified throughout this Information Circular or in the documents incorporated by reference herein.

Forward-looking statements in this Information Circular include (but are not limited to) statements relating to the expected benefits of the Arrangement; the effect of the Arrangement on distributions of the Fund and the business of the Partnership; the completion, and the timing of completion, of the Arrangement and the subsequent winding-up of the Fund and the Trust; the estimated expenses of the Arrangement and related matters; the risks to which the Fund and the Partnership may be subject; the structure, business, financial and tax position, governance, dividend policy, shareholders, and outlook of Newco; and the risks to which Newco will be subject, in the event the Arrangement is completed, including as described in Appendix "E" to this Information Circular. The statements relating to Newco on and after completion of the Arrangement are made on the assumption that the Arrangement is completed.

Various assumptions are typically applied in drawing conclusions or making the forecasts or projections set out in forward-looking statements. Those assumptions and factors are based on information currently available to the Fund, including information obtained from the General Partner and third party analysts and other third party sources. In some instances, material assumptions and factors are presented elsewhere in this Information Circular in connection with the forward-looking statements. You are cautioned that the following list of material factors and assumptions is not exhaustive. Specific material facts and assumptions include, but are not limited to:

- the performance of the business of the Partnership, including current business and economic trends;
- the ability of the Partnership to market its products and services successfully to existing and new customers; and
- currency, exchange, interest and tax rates.

See "Risk Factors" at page 42 of this Information Circular and under "Risk Factors" in Appendix "E" to this Information Circular.



New risk factors may arise from time to time and it is not possible for the Trustees to predict all of those risk factors or the extent to which any factor or combination of factors may cause actual results, performance and achievements of the Fund and Partnership to be materially different from those contained in forward-looking statements. The forward-looking statements are based on current information and expectations and the Fund and Partnership as at the date of this Information Circular, and are subject to change after such date. The Fund assumes no obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise, except as required by applicable law.

## **INFORMATION FOR UNITED STATES UNITHOLDERS**

The securities to be issued to Unitholders in exchange for their securities under the Arrangement have not been and will not be registered under the 1933 Act, and such securities are being issued to U.S. Unitholders in reliance on the exemption from the registration requirements of the 1933 Act set forth in Section 3(a)(10) of the 1933 Act and applicable state securities laws on the basis of the approval of the Court which will consider, among other things, the fairness of the Arrangement to Unitholders. The solicitation of proxies for the Meeting is not subject to the proxy requirements of Section 14(a) of the 1934 Act. Accordingly, the solicitations and transactions contemplated in this Information Circular are made in the United States for securities of a Canadian issuer in accordance with Canadian corporate and securities laws, and this Information Circular has been prepared in accordance with disclosure requirements applicable in Canada. Unitholders in the United States should be aware that such requirements are different from those of the United States applicable to registration statements under the 1933 Act and proxy statements under the 1934 Act. Specifically, information concerning the operations of the Fund contained herein has been prepared in accordance with Canadian disclosure standards, which are not comparable in all respects to United States disclosure standards. The unaudited and audited financial statements of the Fund and Newco included, and incorporated by reference, in this Information Circular have been presented in Canadian dollars, were prepared in accordance with Canadian GAAP and are subject to Canadian auditing and auditor independence standards, and thus are not comparable in all respects to financial statements or financial information of United States companies.

No Newco Shares will be distributed to U.S. Unitholders other than Qualified U.S. Unitholders. Transfer of the Newco Shares by U.S. Unitholders is restricted under applicable U.S. securities laws. See "The Arrangement – Securities Law Matters – United States".

Prior to the Effective Date, Non-Registered Unitholders who appear to the Fund to be U.S. Unitholders or to hold Fund Units on behalf of U.S. Unitholders will be sent a Qualified U.S. Unitholder Certification which is to be completed and returned by all such Non-Registered Unitholders prior to the Effective Date. Non-Registered Unitholders who are sent a Qualified U.S. Unitholder Certification but fail to submit a properly completed and executed Qualified U.S. Unitholder Certification prior to the Effective Date will not receive the same type and/or amount of consideration with regard to the Newco Shares as those who submit a properly completed and executed Qualified U.S. Unitholder Certification. See "The Arrangement – Securities Law Matters – United States".

If a Non-Registered Unitholder who is sent a Qualified U.S. Unitholder Certification fails to submit (or submits then withdraws), prior to the Effective Date, a Qualified U.S. Unitholder Certification to Newco and the Fund certifying either that such Unitholder is not (and does not hold Fund Units on behalf of) a U.S. Unitholder or, if it is a U.S. Unitholder (or holds Fund Units on behalf of a U.S. Unitholder), that such Unitholder (or the U.S. Unitholder on whose behalf it holds Fund Units) is a Qualified Purchaser, the Newco Shares otherwise distributable to such Unitholder under the Arrangement will be pooled and sold over the facilities of the TSX as soon as practicable following the Effective Date on behalf of all such Unitholders, and each such Unitholder's pro rata interest in the proceeds from the sale of such pooled Newco Shares (less applicable brokerage commissions and other expenses and withholding taxes) will then be sent to such Unitholder. For each Certifying Non-Qualified U.S. Unitholder, Newco will pay the fees and cost associated with such pooling and sale.

See "Certain United States Federal Income Tax Considerations" for a summary of certain U.S. federal income tax considerations generally applicable to U.S. Holders with respect to the Arrangement. U.S. Holders are advised to consult their tax advisors to determine the particular tax consequences to them of the Arrangement.

The enforcement by investors of civil liabilities under the United States securities laws may be affected adversely by the fact that the Fund, the Trust, Newco, the General Partner and the Partnership are or will be organized under the laws of Canada, that their respective officers and directors and trustees are residents of countries other than the United States, that certain of the experts named in this Information Circular are residents of countries other than the United States, and that all or substantial portions of the assets of the Fund, the Trust, Newco, the General Partner and the Partnership and such other Persons are, or will be, located outside the United States.

For further information, see "The Arrangement – Securities Law Matters – United States" in this Information Circular.

THE NEWCO SHARES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION OR SECURITIES REGULATORY AUTHORITIES OF ANY STATE OF THE UNITED STATES, NOR HAS THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION OR SECURITIES REGULATORY AUTHORITIES OF ANY STATE OF THE UNITED STATES PASSED ON THE ADEQUACY OR ACCURACY OF THIS INFORMATION CIRCULAR. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE.

## GLOSSARY OF TERMS

The following is a glossary of certain terms used in this Information Circular, including the Summary hereof.

"1933 Act"	means the United States <i>Securities Act of 1933</i> , as amended;
"1934 Act"	means the United States <i>Securities Exchange Act of 1934</i> , as amended;
"1940 Act"	means the United States <i>Investment Company Act of 1940</i> , as amended;
"Act"	means the <i>Business Corporations Act</i> (British Columbia), as amended from time to time, including all regulations thereunder;
"Adjusted Distributable Cash"	means, for any given period, Standardized Distributable Cash prior to the effects of changes in non-cash working capital and long-term deferred maintenance, and after provision for accrued working capital expenditures and provision for current asset retirement obligation expenditures and accruals;
"ADMT"	means an air-dried metric tonne;
"AIF"	means the Annual Information Form of the Fund dated February 18, 2010 in respect of the Fund's financial year ended December 31, 2009, incorporated by reference in this Information Circular;
"Arrangement Agreement"	means the arrangement agreement dated as of March 15, 2010, between Newco and the Fund, pursuant to which Newco and the Fund have proposed to implement the Arrangement, a copy of which agreement is attached as Appendix "C" to this Information Circular, including any amendments thereto;
"Arrangement Resolution"	means the special resolution in respect of the Arrangement and related matters, in substantially the form attached as Appendix "A" to this Information Circular, to be voted upon by Unitholders at the Meeting;
"Arrangement"	means the proposed arrangement, under the provisions of Section 288 of the Act, on the terms and conditions set forth in the Plan of Arrangement as supplemented, modified or amended;
"Audit Committee"	means the audit committee of the General Partner;
"Bank Facility"	means a \$40 million bank credit facility entered into by the Partnership on September 30, 2009, and maturing on November 30, 2011;
"Board of Directors"	means the board of directors of the General Partner;
"Board of Trustees"	means the trustees of the Fund;
"Broadridge"	means Broadridge Investor Communication Solutions;
"Business Day"	means a day, other than a Saturday, Sunday or statutory holiday, when banks are generally open for business in the City of Vancouver, in the Province of British Columbia, for the transaction of banking business;
"Canfor"	means Canfor Corporation;
"CEO"	means the Chief Executive Officer of the General Partner;
"Certifying Non-Qualified U.S. Unitholder"	means a Non-Registered Unitholder who is sent a Qualified U.S. Unitholder Certification and who has, prior to the Effective Date, properly submitted (and not withdrawn) a Qualified U.S. Unitholder Certification to Newco and the Fund certifying that such Unitholder is (or holds Fund Units on behalf of a person who is) a U.S. Person who is not a Qualified Purchaser;
"CFO"	means the Chief Financial Officer of the General Partner;

<b>"CFP"</b>	means Canadian Forest Products Ltd.;
<b>"CIBC Mellon"</b>	means CIBC Mellon Trust Company;
<b>"Class A LP Units"</b>	means Class A Limited Partnership Units of the Partnership;
<b>"Class B Exchangeable LP Units"</b>	means Class B Exchangeable Limited Partnership Units of the Partnership;
<b>"Cogeneration Agreement"</b>	means the cogeneration agreement between BC Hydro and Canfor relating to the Cogeneration Project, which was assigned to the Partnership after July 1, 2006, as amended;
<b>"Cogeneration Project"</b>	means the cogeneration project described in more detail in the section of the AIF entitled "The Pulp and Paper Business of the Partnership – Energy – Cogeneration Agreement";
<b>"Committees"</b>	means collectively the Audit Committee, the Governance Committee, the Compensation Committee, the Planning Committee and the Search Committee;
<b>"Compensation Committee"</b>	means the compensation committee of the General Partner;
<b>"Court"</b>	means the Supreme Court of British Columbia;
<b>"CRA"</b>	means Canada Revenue Agency;
<b>"Credit Facilities"</b>	means the Term Facility, the Bank Facility and the Hydro LOC Facility;
<b>"Dissent Fund Units"</b>	means the Fund Units held by a Dissenting Unitholder and in respect of which the Dissenting Unitholder has validly exercised the Dissent Rights;
<b>"Dissent Notice"</b>	means a written objection to the Arrangement Resolution by a Registered Unitholder in accordance with the Dissent Procedures;
<b>"Dissent Procedures"</b>	means the dissent procedures described under "The Arrangement – Right to Dissent";
<b>"Dissent Rights"</b>	means the rights of Registered Unitholders to dissent in respect of the Arrangement provided for in the Interim Order and described in Article 4 of the Plan of Arrangement;
<b>"Dissenting Unitholders"</b>	means Registered Unitholders who validly exercise Dissent Rights provided to them under the Plan of Arrangement and the Interim Order and whose Dissent Rights remain valid immediately before the Effective Time;
<b>"Effective Date"</b>	means January 1, 2011 or such other date as Newco and the Fund may agree;
<b>"Effective Time"</b>	means 12:01 a.m. (Vancouver time), or such other time as Newco and the Fund may agree, on the Effective Date;
<b>"Electricity Purchase Agreement" or "EPA"</b>	means the electricity purchase agreement between the Partnership and BC Hydro dated as of September 25, 2009;
<b>"Exchange Agreement"</b>	means the Exchange Agreement dated July 1, 2006 between CFP, the Fund, the Trust, the General Partner and the Partnership and all other persons who acquire units of the Partnership of common shares of the General Partner and agree to become a party thereto and to be bound thereby, as supplemented, modified or amended;
<b>"Fairness Opinion"</b>	means the opinion of Raymond James Ltd. dated March 12, 2010, which opinion is attached as Appendix "D" to this Information Circular;
<b>"Fibre Supply Agreement"</b>	means the fibre supply agreement between the Partnership and Canfor dated as of July 1, 2006;
<b>"Final Order"</b>	means the final order of the Court approving the Arrangement as such order may be amended or

varied at any time prior to the Effective Time;

<b>"Financial Statements"</b>	means the consolidated financial statements of the Fund for the years ended December 31, 2009 and 2008, together with the notes thereto and the auditors' report thereon;
<b>"Fund Declaration of Trust"</b>	means the declaration of trust made as of April 19, 2006, pursuant to which the Fund was established, as may be amended from time to time;
<b>"Fund Support Agreement"</b>	means the fund support agreement between the Fund, the Trust, the Partnership and the General Partner dated as of July 1, 2006;
<b>"Fund Units"</b>	means the units of the Fund;
<b>"Fund"</b>	means Canfor Pulp Income Fund, an unincorporated, open-ended trust established under the laws of the Province of Ontario by the Fund Declaration of Trust, acting through its attorney, the General Partner;
<b>"GAAP"</b>	means generally accepted accounting principles as in effect from time to time;
<b>"General Partner"</b>	means Canfor Pulp Holding Inc., a corporation incorporated under the <i>Canada Business Corporations Act</i> to act as general partner of the Partnership with exclusive authority to manage the business and affairs of the Partnership, and a company in which the Fund holds an indirect 49.8% interest;
<b>"Governance Committee"</b>	means the governance committee of the General Partner;
<b>"GP Shares"</b>	means the common shares in the capital of the General Partner;
<b>"Hydro LOC Facility"</b>	means the separate credit facility which secures the standby letter of credit issued to BC Hydro under the Cogeneration Agreement;
<b>"Income Tax Act" or "Tax Act"</b>	means the <i>Income Tax Act</i> , R.S.C. 1985, c. 1. (5 <sup>th</sup> Supp), as amended, including the regulations promulgated thereunder;
<b>"Information Circular"</b>	means this management information circular of the Fund dated March 16, 2010, together with all appendices hereto, distributed to Unitholders in connection with the Meeting;
<b>"Interim Order"</b>	means the interim order of the Court dated March 16, 2010 in connection with the approval of the Arrangement, providing for, among other things, the calling and holding of the Meeting, a copy of which order is attached as Appendix "B" to this Information Circular, as such order may be affirmed, amended or modified by the Court;
<b>"Letter of Transmittal"</b>	means the letter of transmittal (if any) to be sent by the Fund to CDS & Co., as the sole registered holder of Fund Units;
<b>"LP Units"</b>	means the Class A LP Units and the Class B Exchangeable LP Units;
<b>"Management"</b>	means the management of the General Partner;
<b>"Management's Discussion and Analysis"</b>	means the management's discussion and analysis of the financial condition and results of operations of the Fund and the Partnership for the year ended December 31, 2009;
<b>"Meeting"</b>	means the annual general and special meeting of Unitholders to be held on April 27, 2010 and any adjournment(s) thereof, to, among other things, consider and vote on the Arrangement Resolution;
<b>"Minister"</b>	means the Minister of Finance (Canada);
<b>"Named Executive Officers"</b>	has the meaning given to it under "Executive Compensation – Summary Compensation Table";

<b>"NBSK" or "NBSK Pulp"</b>	means northern bleached softwood kraft pulp;
<b>"Newco Shareholders"</b>	means the holders of Newco Shares immediately after the Effective Time;
<b>"Newco Shares"</b>	means common shares in the share capital of Newco;
<b>"Newco"</b>	means Canfor Pulp Products Inc., a corporation incorporated under the Act and a wholly-owned Subsidiary of the Fund prior to the Effective Time;
<b>"NI 51-102"</b>	means <i>National Instrument 51-102 – Continuous Disclosure Obligations</i> ;
<b>"NI 58-101"</b>	means <i>National Instrument 58-101 "Disclosure of Corporate Governance Practices</i> ;
<b>"Non-Qualified U.S. Unitholder"</b>	means either (i) a Certifying Non-Qualified U.S. Unitholder or (ii) a Non-Registered Unitholder who is sent a Qualified U.S. Unitholder Certification and who, prior to the Effective Date, fails to submit (or submits but then withdraws) a Qualified U.S. Unitholder Certification to Newco and the Fund certifying either that such Unitholder is not (and does not hold Fund Units on behalf of) a U.S. Unitholder or, if it is a U.S. Unitholder (or holds Fund Units on behalf of a U.S. Unitholder) that such Unitholder (or the U.S. Unitholder on whose behalf it holds Fund Units) is a Qualified Purchaser;
<b>"Non-Registered Unitholder"</b>	means a Unitholder who is not a Registered Unitholder;
<b>"Notice of Intention"</b>	has the meaning ascribed to it under "The Arrangement – Right to Dissent";
<b>"Notice of Meeting"</b>	means the Notice of Annual General and Special Meeting of Unitholders which accompanies this Information Circular;
<b>"Partnership"</b>	means Canfor Pulp Limited Partnership, a limited partnership established under the laws of the Province of Manitoba pursuant to the Partnership Agreement, acting through its general partner, the General Partner;
<b>"Partnership Agreement"</b>	means the limited partnership agreement dated April 19, 2006 in respect of the Partnership, as supplemented, modified or amended;
<b>"Partnership Services Agreement"</b>	means the partnership services agreement between the Partnership and Canfor dated as of July 1, 2006, under which Canfor provides certain operational and transitional services to the Partnership;
<b>"Person"</b>	includes an individual, limited or general partnership, limited liability company, limited liability partnership, trust, joint venture, association, body corporate, trustee, executor, administrator, legal representative, government (including any governmental entity) or any other entity, whether or not having legal status;
<b>"Plan" or "Plan of Arrangement"</b>	means the plan of arrangement attached as Schedule A to the Arrangement Agreement, which agreement is attached as Appendix "C" to this Information Circular, as amended or supplemented from time to time in accordance with the terms thereof;
<b>"Planning Committee"</b>	means the planning committee of the General Partner;
<b>"Pulp Business"</b>	means the NBSK pulp and paper business of the Partnership, primarily consisting of owning and operating the Northwood Pulp Mill, Intercontinental Pulp Mill and Prince George Pulp and Paper Mill;
<b>"Qualified Purchaser"</b>	has the meaning set forth in Section 2(a)(51)(A) of the 1940 Act and reproduced as Appendix "F" to this Information Circular;
<b>"Qualified U.S. Unitholder"</b>	means a Non-Registered Unitholder who is sent a Qualified U.S. Unitholder Certification and who has, prior to the Effective Date, properly submitted (and not withdrawn) a Qualified U.S. Unitholder Certification to Newco and the Fund certifying that such Unitholder is (or holds Fund

Units on behalf of a person who is) a Qualified Purchaser;

<b>"Qualified U.S. Unitholder Certification"</b>	means the form of certification in connection with the Arrangement to be sent, prior to the Effective Date, to Non-Registered Unitholders who appear to the Fund to be (or to hold Fund Units on behalf of) U.S. Unitholders, pursuant to which such Unitholders will be requested to certify that they are not (and do not hold Fund Units on behalf of) a U.S. Unitholder or, if they are (or hold Fund Units on behalf of) a U.S. Unitholder, they (or the person on whose behalf they hold Fund Units) are a Qualified Purchaser, satisfy certain additional requirements under applicable securities laws and agree to certain restrictions with regard to the Newco Shares;
<b>"Raymond James"</b>	means Raymond James Ltd.;
<b>"Registered Unitholder"</b>	means a registered holder of Units;
<b>"Registrar"</b>	has the meaning given to that term in the Act;
<b>"Regulation S"</b>	means Regulation S under the 1933 Act;
<b>"Sale Trustee"</b>	means CIBC Mellon Trust Company or such other person as Newco may select;
<b>"Search Committee"</b>	means the search committee of the General Partner;
<b>"Shareholders' Agreement"</b>	means the amended and restated shareholders' agreement dated as of October 26, 2009 between CFP, the Trust, the General Partner, the Partnership and the Fund as supplemented, modified or amended;
<b>"SIFT Rules"</b>	has the meaning given to it under "Summary Information – Background to the Arrangement";
<b>"Spinout"</b>	means a plan of arrangement effective on July 1, 2006, pursuant to which shareholders of Canfor received Fund Units representing a 20% indirect interest in Canfor's NBSK pulp and paper business;
<b>"Standardized Distributable Cash"</b>	has the meaning given in the Canadian Institute of Chartered Accountants interpretive release in July 2007, which for the purposes of the Partnership is defined as periodic cash flows from operating activities, including the effects of changes in non-cash working capital less cash capital expenditures, as reported in the GAAP financial statements of the Partnership;
<b>"Subsidiary"</b>	means, with respect to any Person, a subsidiary (as that term is defined in the Act (for such purposes, if such person is not a corporation, as if such person were a corporation)) of such Person and includes any limited partnership, joint venture, trust, limited liability company, unlimited liability company or other entity, whether or not having legal status, that would constitute a subsidiary (as described above) if such entity were a corporation;
<b>"Term Facility"</b>	means the note purchase agreement dated November 30, 2006 between the Partnership and certain institutional investors in the United States under which the Partnership sold US\$110 million of unsecured notes;
<b>"Transfer Agent"</b>	means CIBC Mellon Trust Company;
<b>"Trust Declaration of Trust"</b>	means the declaration of trust made as of April 19, 2006, pursuant to which the Trust was established, as may be amended from time to time;
<b>"Trust Note Indenture"</b>	means the note indenture dated July 1, 2006 between the Trust and CIBC Mellon Trust Company as supplemented, modified or amended;
<b>"Trust Notes"</b>	the notes issued under the Trust Note Indenture, all of which notes are currently held by the Fund;
<b>"Trust Proposal"</b>	has the meaning given to it under "Summary Information – Background to the Arrangement";
<b>"Trust Units"</b>	means units in the Trust;

<b>"Trust"</b>	means Canfor Pulp Trust, an unincorporated, open-ended trust established under the laws of the Province of Ontario by the Trust Declaration of Trust, acting through its attorney, the General Partner;
<b>"Trustee" or "Trustees"</b>	means the trustees of the Fund or any one of such trustee;
<b>"TSX"</b>	means the Toronto Stock Exchange;
<b>"United States" or "U.S."</b>	means the United States, as defined in Rule 902(l) under Regulation S;
<b>"Unitholders"</b>	means holders from time to time of Fund Units;
<b>"U.S. Holder"</b>	has the meaning ascribed to it under "Certain United States Federal Income Tax Considerations"; and
<b>"U.S. Unitholder"</b>	means a Unitholder who resides in the United States.



## SUMMARY INFORMATION

*The following is a summary of certain information contained elsewhere in this Information Circular, including the Appendices hereto, and is qualified in its entirety by reference to the more detailed information contained or referred to elsewhere in this Information Circular or in the Appendices hereto. Capitalized terms not otherwise defined herein are defined in the "Glossary of Terms". In this summary, all dollar amounts are stated in Canadian dollars.*

### THE MEETING

The Meeting will be held in the Terrace B Room at the Terminal City Club, 837 West Hastings Street, Vancouver, British Columbia, on April 27, 2010, at 11:30 a.m. (Vancouver time) for the purposes set forth in the accompanying Notice of Meeting. The business of the Meeting will be: (i) to consider and vote upon the Arrangement Resolution; (ii) to receive the report of the Trustees and the Financial Statements; (iii) to elect three Trustees for the ensuing year; (iv) to appoint the auditors of the Fund for the ensuing year; and (v) to transact such other business as may properly be brought before the Meeting or any adjournment thereof.

As of the date of this Information Circular, the Trustees are not aware of any changes to these items, and do not expect any other items to be brought forward at the Meeting. **If there are changes or new items, your proxyholder can vote your Fund Units on these items as he or she sees fit.**

### BACKGROUND TO THE ARRANGEMENT

The Fund was created in connection with the Spinout pursuant to a plan of arrangement effective on July 1, 2006. The trust structure allowed the Fund to hold an interest in the Pulp Business while providing Unitholders with regular monthly distributions on a tax efficient basis.

On October 31, 2006, the Minister announced the federal government's trust proposal (the "**Trust Proposal**") to apply a tax at the trust level on distributions of certain income from, among other entities, certain publicly traded mutual fund trusts at a rate of tax comparable to the combined federal and provincial corporate tax rate and to treat such distributions as dividends to unitholders. The Minister announced that existing trusts would have a four-year transition period and generally would not be subject to the new rules until 2011, provided such trusts experienced only "normal growth" and no "undue expansion" before then. The announcement had an immediate impact on the Canadian capital markets and resulted in a significant decline in trading prices for income trusts, including the Fund, royalty trusts and numerous other Canadian securities.

On December 15, 2006, the Minister released further guidance concerning the proposed tax changes including, without limitation, what would be considered "normal growth" for the purposes of the Trust Proposal, as well as the Department of Finance's confirmation that it would not recommend any extension of the four-year transition period. Bill C-52, Budget Implementation Act, 2007, which received Royal Assent on June 22, 2007, contained rules (the "**SIFT Rules**") relating to the tax treatment of "specified investment flow-through" entities, which are designed, among other things, to implement the Trust Proposal.

Since its creation, the Fund has not been liable for any amounts of income tax under the Tax Act because it generally is entitled to deduct (and has fully deducted) distributions to Unitholders in computing its income that would otherwise be subject to tax. Commencing in 2011 the Fund will be liable, under the SIFT Rules, to pay income tax under the Tax Act at a rate comparable to the combined federal and provincial corporate tax rate on distributions to its Unitholders.

The potential reorganization of the Fund's income trust structure to a corporate structure was initially discussed with the Trustees and directors at a joint meeting of the Board of Trustees and the Board of Directors held on July 22, 2009. Following the meeting and with the support of the boards, Management undertook work to assess the financial and legal considerations of such a reorganization. Management consulted with legal counsel and financial advisors and presented its preliminary findings to the Board of Trustees and the Board of Directors at a joint meeting held on December 11, 2009. Based on the initial results, the Board of Trustees and the Board of Directors requested that Management pursue the possible reorganization of the Fund's income trust structure into a corporate structure under which Unitholders would become the sole shareholders of a newly incorporated entity which would hold all of the Fund Units.

An update was provided to the Board of Trustees and the Board of Directors at a joint meeting held on February 5, 2010, at which presentations were made by Management, including legal and tax advice from the Fund's legal and accounting advisors.

The Fund announced its intention to propose a reorganization into a corporate structure in a press release issued on February 5, 2010.

On March 12, 2010, after duly considering the financial and legal aspects and other considerations relating to the proposed transaction, including the structure of the proposed Arrangement, the Trustees' duties and responsibilities to Unitholders, and the Fairness Opinion, the Board of Trustees unanimously approved the proposed transaction providing for the reorganization of the Fund's income trust structure into a corporate structure, concluded that the proposed transaction was in the best interests of the Fund and all Unitholders, and resolved to recommend that the Unitholders vote their Fund Units in favour of the Arrangement.



## **BENEFITS OF THE ARRANGEMENT**

The Board of Trustees has determined that implementing the proposed reorganization into a corporate structure is in the best interests of Unitholders, and is recommending the Arrangement to Unitholders, for the following reasons:

- as a result of the application of the SIFT Rules to the Fund, commencing in 2011 the trust structure will not result in tax-efficiencies on distributions to Unitholders, thereby removing a significant benefit of the income trust structure;
- approving the Arrangement at the Meeting and implementing it on the anticipated effective date of January 1, 2011:
  - eliminates any uncertainty or risk during 2010 with respect to the future status of the business;
  - allows the Fund to retain its current tax advantages for the full 2010 tax year; and
  - ensures that Unitholders are not exposed to any uncertainty or risk regarding the continued availability of roll-over treatment for Unitholders under the Canadian tax rules introduced to facilitate the restructuring of income trusts so as to convert them into corporations; and
- commencing in 2011, it is expected that investors will view owning trust units of an income fund less favourably than owning shares of a corporation, leading to reduced liquidity for trust units than would exist for shares of a corporation.

## **FAIRNESS OPINION**

The Board of Trustees retained Raymond James to address the fairness, from a financial point of view, of the consideration to be received by Unitholders pursuant to the Arrangement. In connection with this mandate, Raymond James provided the Board of Trustees the Fairness Opinion. The Fairness Opinion states that, on the basis of the particular assumptions and considerations summarized therein, in the opinion of Raymond James, as of March 12, 2010 the consideration to be received by Unitholders pursuant to the Arrangement is fair, from a financial point of view, to Unitholders. The Fairness Opinion is subject to the assumptions and limitations contained therein and should be read in its entirety. See "Background to and Reasons for the Arrangement – Fairness Opinion" and "Appendix "D" – Fairness Opinion".

The Board of Trustees unanimously concurs with the views of Raymond James and such views were an important consideration in the Board of Trustees' decision to proceed with the Arrangement.

The Fairness Opinion was provided for the information of, and assistance to, the Board of Trustees in connection with its consideration of the Arrangement. The Fairness Opinion is not a recommendation as to how any Unitholder should vote in respect of the Arrangement or any other matter.

## **RECOMMENDATION OF THE BOARD OF TRUSTEES**

**The Board of Trustees has unanimously determined that the Arrangement is fair to Unitholders and is in the best interests of the Fund and Unitholders, and recommends that Unitholders vote in favour of the Arrangement Resolution.**

In reaching its conclusions and formulating its recommendation, the Board of Trustees, considered, among other things, the following information and factors:

- the benefits of the Arrangement described in the section of this Information Circular entitled "Background to and Reasons for the Arrangement – Benefits of the Arrangement";
- the significant decline in trading prices for securities of income trusts after the announcement of the Trust Proposal;
- the Arrangement and subsequent winding-up of the Fund and the Trust will result in a simpler business structure;
- that upon completion of the Arrangement, Unitholders will have the same proportionate indirect interest in the Pulp Business as they held immediately prior to the Arrangement taking effect;
- the Fairness Opinion;
- the mechanics, structure and timing of implementation of the Arrangement;

- the Arrangement Resolutions must receive the appropriate Unitholder approval in order to be adopted; and
- the Plan of Arrangement must be sanctioned by the Court.

The foregoing discussion of the information and factors considered and given weight by the Board of Trustees is not intended to be exhaustive. In reaching the determination to approve and recommend the Arrangement Resolution, the Board of Trustees did not assign any relative or specific weight to the factors that were considered, and individual Trustees may have given different weight to each factor. There are risks associated with the Arrangement, including that some of the potential benefits set forth in this Information Circular may not be realized.

As at March 16, 2010, the Trustees and their associates beneficially own, directly or indirectly, or exercise control or direction over, an aggregate of 78,000 Fund Units, representing approximately 0.22% of the outstanding Fund Units. Each of the Trustees has indicated he intends to vote all of his Fund Units in favour of the Arrangement Resolution.

## **THE ARRANGEMENT**

### **General**

If approved, the Arrangement will result in the reorganization of the Fund's income trust structure into a dividend paying public corporation to be named "Canfor Pulp Products Inc.", and the Unitholders will become the sole shareholders of Newco which will own all of the Fund Units.

If the Arrangement Resolution is approved by the requisite majority of Unitholders at the Meeting and all other conditions set forth in the Arrangement Agreement are satisfied or waived, the Fund expects the Effective Date to be on or about January 1, 2011. It is not possible, however, to state with certainty when the Effective Date will occur.

At the Effective Time, the board of directors of Newco will be comprised of the Trustees immediately prior to the Effective Time. It is expected that, at the Effective Time, Joe Nemeth, Vice President, Sales & Marketing of the General Partner, will be President and Chief Executive Officer of Newco and Terry D. Hodgins, Chief Financial Officer and Secretary of the General Partner, will be the Chief Financial Officer and Secretary of Newco.

In the event the Arrangement is completed, the Fund intends that the Fund and the Trust will be wound-up as soon as practicable thereafter and, in any event, within 60 days of the Effective Date, with the result that Newco will become the direct holder of the 49.8% interests in the Partnership and the General Partner currently held (indirectly) by the Fund.

### **Effect on Unitholders**

The Fund Units held by the Unitholders (other than the Dissenting Unitholders) will be transferred to Newco in consideration for Newco Shares on the basis of one Newco Share for each Fund Unit so transferred.

Under applicable U.S. securities laws, Newco cannot distribute Newco Shares to U.S. Unitholders who are not Qualified Purchasers. Consequently, Newco Shares otherwise distributable to Non-Qualified U.S. Unitholders under the Arrangement will be issued on their behalf to the Sale Trustee, as agent for such Unitholder (and without liability except for gross negligence or wilful misconduct). Such Newco Shares will be sold on behalf of such Non-Qualified U.S. Unitholders over the facilities of the TSX. Each Non-Qualified U.S. Unitholder will receive a pro rata share of the cash proceeds from the sale of such Newco Shares sold by the Sale Trustee (less applicable brokerage commissions and other expenses and withholding taxes) in lieu of Newco Shares. Neither the Fund nor Newco will have any liability for any such proceeds received or the remittance thereof to such Unitholders.

See "The Arrangement – Arrangement Steps", "Securities Law Matters – United States", "Principal Canadian Federal Income Tax Considerations", "Certain United States Federal Income Tax Considerations", and "The Arrangement – Procedure for Exchange of Fund Units".

### **Effect on Distributions**

The Trustees do not expect the proposed Arrangement to affect distributions to Unitholders between the date of this Information Circular and the Effective Date. Provided the Arrangement Resolution is approved at the Meeting and assuming that the Effective Date occurs on January 1, 2011, the Fund expects that December 31, 2010 will be the record date for the last monthly distribution paid to Unitholders.

Subject to and following the Arrangement becoming effective, the Trustees of the Fund, who are expected to constitute the board of directors of Newco at the Effective Time, intend to establish as a dividend policy for Newco that it will distribute, as quarterly dividends on the Newco Shares, substantially all of the cash distributions received from the Partnership, less estimated cash amounts required for the payment of expenses and other obligations and any tax liability of Newco. The Trustees do not intend to accumulate material cash balances in Newco. See the section of the AIF entitled "Distributions – Distributions of the Partnership" for a discussion of the distribution policy of the Partnership.

To the extent permitted by the Tax Act, Newco intends to designate any dividends paid on Newco Shares to be "eligible dividends", such that the Resident Holders that are individuals would benefit from the enhanced gross-up and dividend tax credit mechanism under the Tax Act. See "Principal Canadian Federal Income Tax Considerations – Unitholders Resident in Canada – Dividends on Newco Shares".

Notwithstanding the foregoing, the amount of any dividends payable by Newco will be at the discretion of the board of directors of Newco from time to time and dependent upon distributions by the Partnership, financial requirements of Newco, the satisfaction of solvency tests imposed by the Act for the declaration of dividends and other conditions existing from time to time. See "The Arrangement – Effect of the Arrangement – Effect on Distributions" and "Dividend Record and Policy" and "Risk Factors – Risks Related to Newco" in Appendix "E".

### **Newco Tax Position Post-Arrangement**

Upon completion of the Arrangement, Newco will be liable for income tax on its 49.8% share of the taxable income of the Partnership less any deductible expenses of the corporation. There is currently a difference between the accounting value of the Partnership's assets and liabilities and the value for tax purposes of the Partnership's assets and liabilities. Newco's 49.8% share of the taxable difference between the accounting basis and the tax basis of the Partnership's assets and liabilities is projected to be approximately \$135 million at January 1, 2011. At currently enacted combined federal and provincial income tax rates of 26.5% in 2011 and 25% thereafter, this would result in a future income tax liability of approximately \$34 million, which would become payable in future years as the differences between accounting and tax basis of the Partnership's assets and liabilities are reversed.

Based on normal levels of annual capital expenditures, current accounting amortization rates, and projected annual capital cost allowance deductible for income tax purposes, the future income tax liability is projected to become payable in cash at approximately \$2 million per year commencing in 2011. This annual \$2 million income tax payable will be in addition to the income tax at the enacted rates on earnings in 2011 and subsequent years.

### **Governance of Newco**

The Fund is an entity that distributes earnings from its indirect holdings in the Partnership to Unitholders. The Fund does not conduct any active business and the role of the Trustees is to act primarily on behalf of the Fund and to manage the limited affairs of the Fund. The General Partner is the general partner of the Partnership and is therefore responsible for the management of the business of the Partnership. All of the Trustees of the Fund are independent and each Trustee is a member of the Board of Directors of the General Partner, however, under the Shareholders' Agreement, Canfor is entitled to appoint the majority of the directors of the General Partner.

Due to the passive nature of the Fund, the Fund does not have independent active management nor do the Trustees exercise supervisory functions over management of the General Partner or the Partnership. By reason of the foregoing and the number of Trustees, it has not been necessary for the Fund to function through a committee structure. The Trustees collectively discharge the functions that would otherwise be discharged by an executive committee or a governance committee and all the Trustees serve on the Audit Committee of the Fund and of the General Partner. At the Effective Time, Newco will have the same passive nature as the Fund and, as a result, it is anticipated that, from the Effective Time, Newco will adopt the same corporate governance structure as that of the Fund.

See "The Arrangement – Effect of the Arrangement – Governance of Newco".

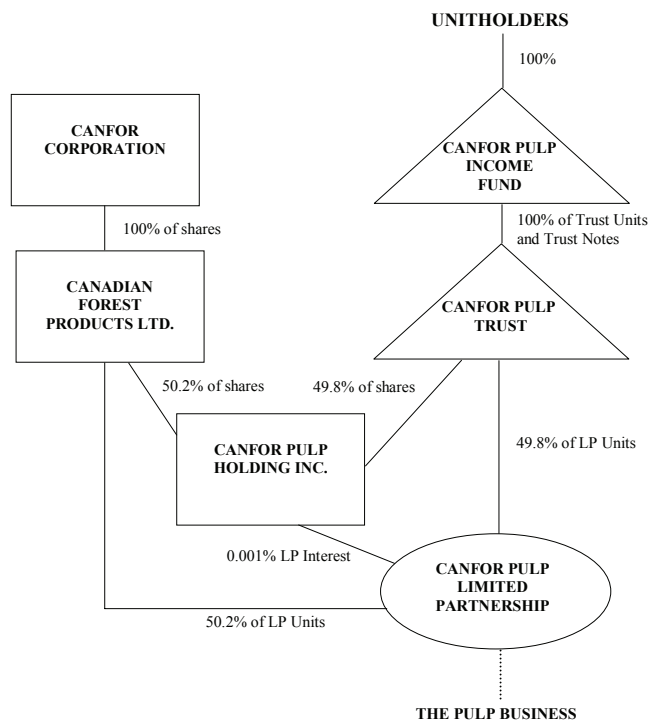
### **Post Arrangement Structure**

Upon completion of the Arrangement, the Unitholders will be the sole shareholders of Newco and Newco will own all of the issued and outstanding Fund Units. Upon the completion of the Arrangement, an aggregate of approximately 35,493,505 Newco Shares will be issued and outstanding, assuming that the same number of Fund Units are outstanding on the Effective Date as were outstanding on March 16, 2010 and that no Dissent Rights are exercised.

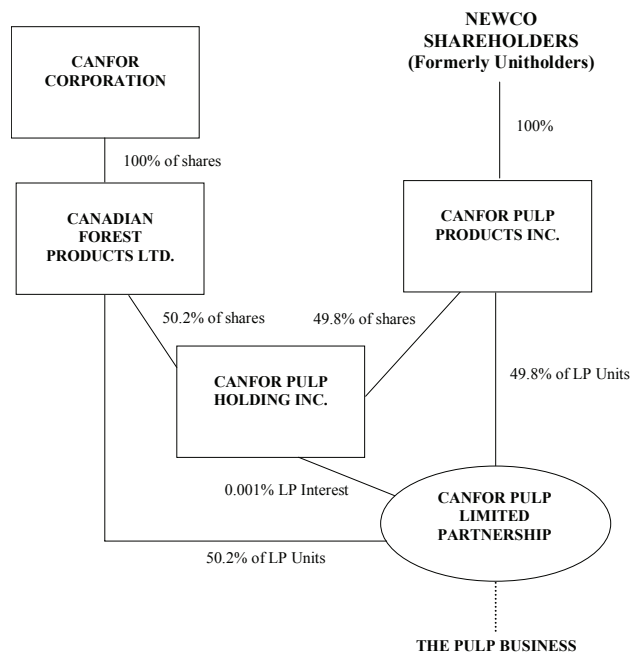
In the event the Arrangement is completed, the Fund intends that the Fund and the Trust will be wound-up, with the result that Newco will become the direct holder of the 49.8% interests in the Partnership and the General Partner currently held (indirectly) by the Fund.

The following diagrams illustrate, on a simplified basis, the organizational structure of the Fund and the Partnership as at March 16, 2010 and the organizational structure of Newco and the Partnership immediately following the completion of the Arrangement and the subsequent winding-up of the Fund and the Trust.

As at March 16, 2010:



Upon completion of the Arrangement and the winding-up of the Fund and the Trust:



See "The Arrangement – Effect of the Arrangement" and "Appendix "E" – Information Concerning Canfor Pulp Products Inc.".

## ARRANGEMENT AGREEMENT

The Arrangement is being effected pursuant to the Arrangement Agreement. The Arrangement Agreement contains covenants of and from each of the Fund and Newco, and various conditions precedent, both mutual and with respect to each entity and the Fund.

The Arrangement Agreement is attached as Appendix "C" to this Information Circular and reference is made thereto for the full text thereof.

## PROCEDURE FOR ARRANGEMENT BECOMING EFFECTIVE

### Unitholder Approval

Pursuant to the Interim Order, the number of votes required to pass the Arrangement Resolution shall be not less than two-thirds of the votes cast by Unitholders, either in person or by proxy, voting at the Meeting.

**If you do not specify how you want your Fund Units voted, the persons named as proxyholders will cast the votes represented by proxy at the Meeting FOR the approval of the Arrangement Resolution.**

### Final Order

Implementation of the Arrangement requires the satisfaction of several conditions and the approval of the Court. See "The Arrangement – Procedure for the Arrangement Becoming Effective". An application for the Final Order approving the Arrangement is expected to be made on May 3, 2010 at 9:45 a.m. (Vancouver time) at the Courthouse, 800 Smithe Street, Vancouver, British Columbia, or at any other date following notification by news release to the Unitholders of the date of presentation of such application, at least two days before such date. On the application, the Court will consider the fairness of the Arrangement.

If the Final Order is obtained on May 3, 2010 in form and substance satisfactory to Newco and the Fund, and all other conditions set forth in the Arrangement Agreement are satisfied or waived, the Fund expects the Effective Date to be on or about January 1, 2011. It is not possible, however, to state with certainty when the Effective Date will occur.

## CONSEQUENTIAL AMENDMENTS TO EXISTING AGREEMENTS

Under the Arrangement the Fund Declaration of Trust will be amended to the extent necessary to facilitate the Arrangement. In addition, it is currently anticipated that the Fund and the Trust will be dissolved following the Arrangement.

It is a condition precedent to the Arrangement becoming effective that certain organizational documents to which the Fund and/or the Trust is a party be amended, modified or supplemented, if and to the extent necessary or, in the reasonable opinion of the Fund and Newco, desirable to facilitate the transactions contemplated under the Arrangement and the subsequent wind-up of the Fund and the Trust.

## PROCEDURE FOR EXCHANGE OF FUND UNITS

As the Fund Units are uncertificated and trade in the "book entry" systems, no certificates for the Newco Shares will be issued to registered or beneficial holders following the completion of the Arrangement and the beneficial holders of Fund Units do not need to take any action involving their Fund Units in order to receive Newco Shares to which they are entitled under the Arrangement. **Unitholders whose Fund Units are held through a broker, dealer, bank, trust company or other nominee may wish to contact their nominee with respect to the exchange of their Fund Units for Newco Shares.**

Under applicable U.S. securities laws, Newco cannot distribute Newco Shares to U.S. Unitholders who are not Qualified Purchasers. Consequently, Newco Shares otherwise distributable to Non-Qualified U.S. Unitholders under the Arrangement will be issued on their behalf to the Sale Trustee, as agent for such Unitholder (and without liability except for gross negligence or wilful misconduct). Such Newco Shares will be sold on behalf of such Non-Qualified U.S. Unitholders over the facilities of the TSX. Each Non-Qualified U.S. Unitholder will receive a pro rata share of the cash proceeds from the sale of such Newco Shares sold by the Sale Trustee (less applicable brokerage commissions and other expenses and withholding taxes) in lieu of Newco Shares. Neither the Fund nor Newco will have any liability for any such proceeds received or the remittance thereof to such Unitholders.

In addition, if it appears to Newco that it would be contrary to applicable law to issue Newco Shares pursuant to the Arrangement to a person that is not a resident of Canada, Newco may (in its sole discretion), have the Newco Shares that otherwise would be issued to that person issued on their behalf to the Sale Trustee, as agent for such Unitholder (and without liability except for gross negligence or wilful misconduct), sell such Newco Shares on their behalf over the facilities of the TSX and have the net proceeds of such sale, less any applicable brokerage commissions, other expenses and withholding taxes, delivered to such Unitholders. Neither the Fund nor Newco will have any liability for any such proceeds received or the remittance thereof to such Unitholders.

See "The Arrangement – Procedure for Exchange of Fund Units".

## RIGHT TO DISSENT

The Interim Order provides that each Registered Unitholder will have the right to dissent and, if the Arrangement becomes effective, to have his or her Fund Units cancelled in exchange for a cash payment from the Fund equal to the fair value of his or her Fund Units as of the day of the Meeting in accordance with the provisions of the Interim Order. In order to validly dissent, any such Registered Unitholder must not vote any Dissent Fund Units in favour of the Arrangement Resolution, must provide the Fund with written objection to the Arrangement by 4:00 p.m. (Vancouver time) on April 23, 2010, and must otherwise comply with the Dissent Procedures provided in the Interim Order. A Non-Registered Unitholder who wishes to exercise the Dissent Rights must arrange for the Registered Unitholder(s) holding its Fund Units to deliver the Dissent Notice. See "The Arrangement – Right to Dissent".

**If a Dissenting Unitholder fails to strictly comply with the requirements of the Dissent Rights set out in the Interim Order, it will lose its Dissent Rights.** The Dissent Rights are set out in their entirety in the Interim Order, a copy of which is set out in Appendix "B" to this Information Circular.

If, as of the Effective Date, the aggregate number of Fund Units in respect of which Unitholders have duly and validly exercised Dissent Rights exceeds 1% of the Fund Units then outstanding, each of the Fund and Newco is entitled, in its discretion, to not complete the Arrangement.

## STOCK EXCHANGE LISTING

The TSX has conditionally approved the substitutional listing of the Newco Shares, subject to Newco fulfilling the requirements of such exchange as soon as possible after the Effective Time. After the Effective Date, Newco will be posted for trading on the TSX under the symbol "CFX".

## SECURITIES LAW MATTERS – UNITED STATES

Under applicable U.S. securities laws, Newco cannot distribute Newco Shares to U.S. Unitholders who are not Qualified Purchasers. Consequently, Newco Shares otherwise distributable to Non-Qualified U.S. Unitholders under the Arrangement will be issued on their behalf to the Sale Trustee, as agent for such Unitholder (and without liability except for gross negligence or wilful misconduct). Such Newco Shares will be sold on behalf of such Non-Qualified U.S. Unitholders over the facilities of the TSX. Each Non-Qualified U.S. Unitholder will receive a pro rata share of the cash proceeds from the sale of such Newco Shares sold by the Sale Trustee (less

applicable brokerage commissions and other expenses and withholding taxes) in lieu of Newco Shares. Neither the Fund nor Newco will have any liability for any such proceeds received or the remittance thereof to such Unitholders.

### **PRINCIPAL CANADIAN FEDERAL INCOME TAX CONSIDERATIONS**

A Unitholder will generally not realize a gain or loss on the exchange of Fund Units solely for Newco Shares as part of the Arrangement. The aggregate adjusted cost base of the Newco Shares received by such Unitholder under the Arrangement will be equal to the aggregate adjusted cost base of the Fund Units held by the Unitholder immediately prior to the Arrangement.

The foregoing summary is of a general nature only and is qualified in its entirety by the summary of the principal Canadian federal income tax considerations contained in this Information Circular (See "Principal Canadian Federal Income Tax Considerations"). All Unitholders should consult their own tax advisors for advice with respect to their own particular circumstances.

### **CERTAIN UNITED STATES FEDERAL INCOME TAX CONSIDERATIONS**

Subject to the passive foreign investment company rules summarized below under "Certain United States Federal Income Tax Considerations - PFIC Rules", a U.S. Holder generally should not recognize any income, gain or loss upon the disposition of Fund Units in exchange for Newco Shares pursuant to the Arrangement.

This Information Circular contains a summary of the principal United States federal income tax considerations relevant to U.S. Holders that relate to the Arrangement and the above comments are qualified in their entirety by reference to such summary. See "Certain United States Federal Income Tax Considerations". U.S. Holders should consult their own tax advisors regarding the United States federal income tax considerations applicable to them in their particular circumstances.

### **OTHER TAX CONSIDERATIONS**

**This Information Circular does not address any tax considerations of the Arrangement other than Canadian and United States federal income tax considerations. Unitholders who are resident in jurisdictions other than Canada or the United States should consult their tax advisers with respect to the tax implications of the Arrangement, including any associated filing requirements in such jurisdictions and with respect to the tax implications in such jurisdictions of owning Newco Shares after the Arrangement. Unitholders should also consult their own tax advisors regarding the Canadian federal, provincial or territorial, and United States federal, state and local tax consequences of the Arrangement or of holding Newco Shares.**

### **INFORMATION CONCERNING NEWCO**

Newco was incorporated on March 12, 2010 pursuant to the provisions of the Act and is a wholly-owned Subsidiary of the Fund. The principal and head office of Newco is located at 1700 West 75<sup>th</sup> Avenue, Vancouver, British Columbia, Canada, V6P 6G2.

On the Effective Date, Newco will become a reporting issuer in all Canadian jurisdictions and will become subject to the informational reporting requirements under the securities laws of such jurisdictions as a result of the Arrangement. See "Appendix "E" – Information Concerning Canfor Pulp Products Inc."

### **RISK FACTORS RELATING TO NEWCO**

For a description of certain risk factors in respect of the business of the Fund, the Trust, the General Partner, the Partnership and its Subsidiaries and the industry in which they operate which will continue to apply to Newco after the Effective Date, see "Appendix "E" – Information Concerning Canfor Pulp Products Inc. – Risk Factors".

The following is a list of certain additional risk factors relating to the activities of Newco and its affiliates and the ownership of Newco Shares following the Effective Date which prospective investors should carefully consider before making an investment decision relating to Newco Shares:

#### *Uncertainty of Dividends*

The ability of Newco to pay dividends and, if any, the level thereof, in the future is uncertain as it depends upon the operating cash flows generated by the Partnership and its Subsidiaries, the financial requirements of Newco, the General Partner and the Partnership and their respective Subsidiaries, the satisfaction of solvency tests on the payment of dividends or other distributions pursuant to the Act and other applicable laws and regulations, and contractual restrictions contained in the instruments governing any indebtedness of those entities, including restrictive covenants in the Credit Facilities.

#### *Dependence on the Partnership*

Newco will be entirely dependent on the operations and assets of the Partnership. The ability of Newco to pay dividends on Newco Shares will be dependent on, among other things, the Partnership making cash distributions.



### *Control of the Partnership*

Pursuant to the Shareholders' Agreement, CFP is entitled to appoint the majority of directors to the board of the General Partner for so long as it owns not less than 30% of the outstanding LP Units. For so long as CFP holds not less than a 20% interest in the Partnership, CFP's consent will be required in order to approve certain significant transactions of the Partnership. In addition, under the Exchange Agreement, the Fund and the Trust agree not to take certain actions without the prior approval of CFP. It is expected that the Exchange Agreement will be amended to provide CFP similar rights with respect to Newco. As a result of these rights, CFP will exercise significant influence or control over transactions submitted to the board of the General Partner and to the board of directors of Newco. Canfor may have sufficient voting power to prevent a change of control of the Partnership. The Fund has, and, on completion of the Arrangement, Newco will have, an indirect minority interest in the Partnership and minority representation on the board of the General Partner and, therefore, has influence but not control over transactions of the Partnership.

The interests of Canfor and/or CFP may conflict with those of the holders of Newco Shares.

### *Dilution of Newco Shareholders*

Newco will be authorized to issue an unlimited number of Newco Shares for that consideration and on those terms and conditions as shall be established by the board of directors of Newco without the approval of any Newco Shareholders. The Newco Shareholders will have no pre-emptive rights in connection with such further issues. It is expected that the terms of the Class B Exchangeable LP Units and the Exchange Agreement will be amended so that the Class B Exchangeable LP Units will be exchangeable for Newco Shares instead of Fund Units after the Effective Time. If such amendments are made, additional Newco Shares will be issuable by Newco in connection with the conversion of the Class B Exchangeable LP Units by CFP into Fund Units pursuant to the conversion rights attached thereto.

### *Future Sales of Newco Shares by Canfor*

Canfor (indirectly) holds Class B Exchangeable LP Units representing approximately 50.2% of the outstanding Fund Units on a fully-diluted basis. Canfor has also been granted certain registration rights by the Fund under the Exchange Agreement. See the section of the AIF entitled "Acquisition, Liquidity, Support and Security Holder Agreements — Exchange Agreement" for further details. It is expected that the terms of the Class B Exchangeable LP Units and the Exchange Agreement will be amended so that the Class B Exchangeable LP Units will be exchangeable for Newco Shares instead of Fund Units. Assuming such amendments are implemented, Canfor will (indirectly) hold Class B Exchangeable LP Units representing approximately 50.2% of the Newco Shares outstanding at the Effective Time (assuming no Dissent Rights are exercised). If Canfor sells substantial amounts of Newco Shares in the public market, the market price of the Newco Shares could fall. The perception among the public that these net sales will occur could also contribute to a decline in the market price of the Newco Shares.

### *Limitation on Potential Growth*

The payout by the Partnership of substantially all of its operating cash flow will make additional capital and operating expenditures dependent on increased cash flow or additional financing in the future. Lack of those funds could limit the future growth of the Partnership and its cash flow.

In addition, for a description of risk factors in respect of the Fund, the Trust, the General Partner and Partnership and its Subsidiaries, see the section entitled "Risk Factors" in the AIF, which is incorporated herein by reference. Unitholders should carefully consider all such risk factors.

## **PLACEMENT BEFORE UNITHOLDERS OF FINANCIAL STATEMENTS OF THE FUND**

The Financial Statements placed before Unitholders are contained in the Fund's Annual Report accompanying this Information Circular and are available on SEDAR at [www.sedar.com](http://www.sedar.com). Copies of such statements will also be available at the Meeting.

## **ELECTION OF THE TRUSTEES**

Three (3) Trustees are to be elected to the Board of Trustees. Please refer to the section of this Information Circular "Election of Trustees" for further details. Trustees elected at the Meeting will serve until the end of the next annual general meeting of Unitholders or until their successors are duly elected or appointed.

**If you do not specify how you want your Fund Units voted, the persons named as proxyholders will cast the votes represented by proxy at the Meeting FOR the election as Trustees of the nominee trustees who are named in this Information Circular.**

## **APPOINTMENT OF AUDITORS**

On the recommendation of the Audit Committee of the General Partner, the Trustees have re-appointed PricewaterhouseCoopers LLP, Chartered Accountants, as auditors of the Fund to hold office until the next annual general meeting of the Fund. PricewaterhouseCoopers LLP has served as auditors of the Fund and the Partnership since July 25, 2006.

**The person named in the enclosed form of proxy will, unless otherwise directed, vote FOR the confirmation of the reappointment of PricewaterhouseCoopers LLP as auditors.**

## **GENERAL PROXY MATTERS**

### **SOLICITATION OF PROXIES**

This Information Circular is furnished in connection with the solicitation of proxies by the Trustees of the Fund to be used at the Meeting to be held at the time and place and for the purposes set forth in the Notice of the Meeting accompanying this Information Circular.

The solicitation will be by mail. The cost of solicitation will be borne by the Fund.

### **RECORD DATE**

The Trustees of the Fund have fixed March 15, 2010 at the close of business as the record date for determining the names of Unitholders entitled to receive notice of the Meeting.

### **YOUR VOTE IS IMPORTANT**

As a Unitholder, it is very important that you read the following information on how to vote your Fund Units and then vote your Fund Units, either by proxy or in person at the Meeting.

### **INFORMATION FOR BENEFICIAL HOLDERS OF SECURITIES**

The form of proxy accompanying this Information Circular confers discretionary authority upon the proxy nominees with respect to any amendments or variations to matters identified in the Notice of Meeting or any other matters which may properly come before this Meeting. On any ballot or poll, the Fund Units represented by the proxy will be voted or withheld from voting in accordance with the instructions of the Unitholder as specified in the proxy with respect to any matter to be voted on. If a choice is not so specified with respect to any such matter, the proxyholder shall be deemed to have been granted the authority to vote the relevant units: (a) for the Arrangement Resolution; (b) for the election of the Trustees named in the proxy; and (c) for the appointment of PricewaterhouseCoopers LLP as the auditors.

All the issued and outstanding Fund Units are listed in an account statement provided to a beneficial Unitholder by a broker, and therefore, the Fund Units are not registered in the beneficial Unitholder's name on the records of the Fund. In Canada, all the Fund Units are registered under the name of CDS & Co. (the registration name for The Canadian Depository for Securities Limited, which acts as nominee for many Canadian brokerage firms). Fund Units held by brokers or their nominees can only be voted (for or against resolutions) upon the instructions of the beneficial Unitholder. Without specific instructions, brokers/nominees are prohibited from voting Fund Units on behalf of their clients. The Trustees of the Fund do not know for whose benefit the Fund Units registered in the name of CDS & Co. are held. Therefore, beneficial Unitholders cannot be recognized at the Meeting for purposes of voting their Fund Units in person or by way of proxy.

Applicable regulatory policy requires intermediaries/brokers to seek voting instructions from beneficial Unitholders in advance of Unitholders' meetings. Every intermediary/broker has its own mailing procedures and provides its own return instructions, which should be carefully followed by beneficial Unitholders in order to ensure that their Fund Units are voted at the Meeting. The form of proxy is limited to instructing the registered Unitholder how to vote on behalf of the beneficial Unitholder. A beneficial Unitholder receiving a voting instruction form cannot use that voting instruction form to vote Fund Units directly at the Meeting. The voting instruction form or voting materials must be returned in accordance with the instructions in such materials in advance of the Meeting in order to have the Fund Units voted. The majority of brokers now delegate responsibility for obtaining instructions from clients to Broadridge. Broadridge typically applies a special sticker to the proxy forms or alternatively, prepares a separate "voting instruction" form, mails those forms to the beneficial Unitholders and asks Unitholders to return to Broadridge the proxy or voting instruction forms. Broadridge then tabulates the results of all instructions received and provides appropriate instructions respecting the voting of Fund Units to be represented at the Meeting. A beneficial Unitholder receiving a proxy with a Broadridge sticker on it, or a voting instruction form, cannot use that proxy or form to vote Fund Units directly at the Meeting. Instead, the proxy or form must be returned to Broadridge well in advance of the Meeting in order to have the Fund Units voted.

**IF YOU ARE A BENEFICIAL UNITHOLDER AND WISH TO VOTE IN PERSON AT THE MEETING, PLEASE CONTACT YOUR BROKER OR AGENT WELL IN ADVANCE OF THE MEETING TO DETERMINE HOW YOU CAN DO SO.**

### **APPOINTMENT OF PROXYHOLDERS**

Each of the persons named in the enclosed form of proxy is a Trustee of the Fund. A Unitholder who wishes to appoint some other person to represent him/her at the Meeting may do so by inserting such person's name in the blank space provided in the form of proxy or by completing another proper form of proxy. Such other person need not be a Unitholder of the Fund. The proxy will not be valid unless the completed form of proxy is delivered to CIBC Mellon Trust Company, Suite 1600, 1066 West Hastings Street, Vancouver, British Columbia, V6E 3X1, or the Secretary of the Fund, not less than twenty-four (24) hours (excluding Saturdays and holidays) before the time of the Meeting. A beneficial Unitholder may revoke a voting instruction form or a waiver of the right to receive meeting materials and to vote given to an intermediary at any time by written notice to the intermediary, except that an



intermediary is not required to act on a revocation of a voting instruction form or of a waiver of the right to receive materials and to vote that is not received by the intermediary at least seven days prior to the Meeting.

#### **PRINCIPAL HOLDER OF FUND UNITS**

As at March 16, 2010, the Fund has outstanding and entitled to be voted at the Meeting, 35,493,505 Fund Units, each Fund Unit carrying the right to one vote.

To the knowledge of the Trustees of the Fund, no person or corporation beneficially owns, directly or indirectly, or exercise direction or control over more than 10% of the voting rights attached to the issued and outstanding Fund Units other than:

1. CDS & Co. is the sole Unitholder of 35,493,505 Fund Units. The Fund has no knowledge as to the other beneficial holders of the Fund Units held by CDS & Co. which are 10% or more of the outstanding Fund Units.
2. According to public records, as at March 16, 2010, Letko, Brosseau & Associates Inc. has control over 6,368,076 Fund Units representing 17.9% of total issued Fund Units and Platinum Investment Corporation Pty Ltd. has control over 3,888,600 Fund Units representing 11.0% of total issued Fund Units. Beneficial ownership is not known to the Fund.

Canfor Corporation owns 35,776,483 Class B Exchangeable LP Units, which represent a 50.2% interest in the Partnership. The Class B Exchangeable LP Units are indirectly exchangeable for an equivalent number of Fund Units pursuant to the terms of the Exchange Agreement.

The Exchange Agreement contains, among other things, the procedure through which the Class B Exchangeable LP Units may be exchanged for Fund Units. The material terms of the Exchange Agreement are described in Canfor's information circular dated April 28, 2006, filed on SEDAR at [www.sedar.com](http://www.sedar.com). A copy of the Exchange Agreement is filed under the Fund's profile on SEDAR at [www.sedar.com](http://www.sedar.com).

## SPECIAL BUSINESS OF THE MEETING

### SPECIAL BUSINESS

The Meeting will be constituted as an annual as well as a special meeting. As part of the special business set out in the Notice of Meeting, Unitholders will be asked to consider and vote to approve the Arrangement Resolution.

### APPROVAL OF ARRANGEMENT RESOLUTION

At the Meeting, Unitholders will be asked to consider and to vote to approve the Arrangement Resolution approving the Arrangement and other related transactions. To be effective, the Arrangement must be approved by a resolution passed by not less than two-thirds of the votes cast by the Unitholders voting in person or by proxy at the Meeting. A copy of the Arrangement Resolution is set out in Appendix "A" of this Information Circular.

**Unless otherwise directed, it is the intention of the Trustees to vote FOR the Arrangement Resolution. If you do not specify how you want your Fund Units voted, the persons named as proxyholders will cast the votes represented by proxy at the Meeting FOR the Arrangement Resolution.**

## BACKGROUND TO AND REASONS FOR THE ARRANGEMENT

### BACKGROUND TO THE ARRANGEMENT

The Fund was created in connection with the Spinout pursuant to a plan of arrangement effective on July 1, 2006. The trust structure allowed the Fund to hold an interest in the Pulp Business while providing Unitholders with regular monthly distributions on a tax efficient basis.

On October 31, 2006, the Minister announced the Trust Proposal to apply a tax at the trust level on distributions of certain income from, among other entities, certain publicly traded mutual fund trusts at a rate of tax comparable to the combined federal and provincial corporate tax rate and to treat such distributions as dividends to unitholders. The Minister announced that existing trusts would have a four-year transition period and generally would not be subject to the new rules until 2011, provided such trusts experienced only "normal growth" and no "undue expansion" before then. The announcement had an immediate impact on the Canadian capital markets and resulted in a significant decline in trading prices for income trusts, including the Fund, royalty trusts and numerous other Canadian securities.

On December 15, 2006, the Minister released further guidance concerning the proposed tax changes including, without limitation, what would be considered "normal growth" for the purposes of the Trust Proposal, as well as the Department of Finance's confirmation that it would not recommend any extension of the four-year transition period. Bill C-52, Budget Implementation Act, 2007, which received Royal Assent on June 22, 2007, contained rules relating to the tax treatment of "specified investment flow-through" entities, which are designed, among other things, to implement the Trust Proposal.

Since its creation, the Fund has not been liable for any amounts of income tax under the Tax Act because it generally is entitled to deduct (and has fully deducted) distributions to Unitholders in computing its income that would otherwise be subject to tax. Commencing in 2011 the Fund will be liable, under the SIFT Rules, to pay income tax under the Tax Act at a rate comparable to the combined federal and provincial corporate tax rate on distributions to its Unitholders.

The potential reorganization of the Fund's income trust structure to a corporate structure was initially discussed with the Trustees and directors at a joint meeting of the Board of Trustees and the Board of Directors held on July 22, 2009. Following the meeting and with the support of the boards, Management undertook work to assess the financial and legal considerations of such a reorganization. Management consulted with legal counsel and financial advisors and presented its preliminary findings to the Board of Trustees and the Board of Directors at a joint meeting held on December 11, 2009. Based on the initial results, the Board of Trustees and the Board of Directors requested that Management pursue the possible reorganization of the Fund's income trust structure into a corporate structure under which Unitholders would become the sole shareholders of a newly incorporated entity which would hold all of the Fund Units.

An update was provided to the Board of Trustees and the Board of Directors at a joint meeting held on February 5, 2010, at which presentations were made by Management, including legal and tax advice from the Fund's legal and accounting advisors.

The Fund announced its intention to propose a reorganization into a corporate structure in a press release issued on February 5, 2010.

On March 12, 2010, after duly considering the financial and legal aspects and other considerations relating to the proposed transaction, including the structure of the proposed Arrangement, the Trustees' duties and responsibilities to Unitholders, and the Fairness Opinion, the Board of Trustees unanimously approved the proposed transaction providing for the reorganization of the Fund's income trust structure into a corporate structure, concluded that the proposed transaction was in the best interests of the Fund and all Unitholders, and resolved to recommend that the Unitholders vote their Fund Units in favour of the Arrangement.

## **BENEFITS OF THE ARRANGEMENT**

The Board of Trustees has determined that implementing the proposed reorganization into a corporate structure is in the best interests of Unitholders, and is recommending the Arrangement to Unitholders, for the following reasons:

- as a result of the application of the SIFT Rules to the Fund, commencing in 2011 the trust structure will not result in tax-efficiencies on distributions to Unitholders, thereby removing a significant benefit of the income trust structure;
- approving the Arrangement at the Meeting and implementing it on the anticipated effective date of January 1, 2011:
  - eliminates any uncertainty or risk during 2010 with respect to the future status of the business;
  - allows the Fund to retain its current tax advantages for the full 2010 tax year; and
  - ensures that Unitholders are not exposed to any uncertainty or risk regarding the continued availability of roll-over treatment for Unitholders under the Canadian tax rules introduced to facilitate the restructuring of income trusts so as to convert them into corporations; and
- commencing in 2011, it is expected that investors will view owning trust units of an income fund less favourably than owning shares of a corporation, leading to reduced liquidity for trust units than would exist for shares of a corporation.

## **FAIRNESS OPINION**

The Board of Trustees retained Raymond James to address the fairness, from a financial point of view, of the consideration to be received by Unitholders pursuant to the Arrangement. In connection with this mandate, Raymond James provided the Board of Trustees the Fairness Opinion. The Fairness Opinion states that, on the basis of the particular assumptions and considerations summarized therein, in the opinion of Raymond James, as of March 12, 2010, the consideration to be received by Unitholders pursuant to the Arrangement is fair, from a financial point of view, to Unitholders. The Fairness Opinion is subject to the assumptions and limitations contained therein and should be read in its entirety. See "Appendix "D" – Fairness Opinion".

The Board of Trustees unanimously concurs with the views of Raymond James and such views were an important consideration in the Board of Trustees' decision to proceed with the Arrangement.

The Fairness Opinion was provided for the information of, and assistance to, the Board of Trustees in connection with its consideration of the Arrangement. The Fairness Opinion is not a recommendation as to how any Unitholder should vote in respect of the Arrangement or any other matter.

## **RECOMMENDATION OF THE BOARD OF TRUSTEES**

**The Board of Trustees has unanimously determined that the Arrangement is fair to Unitholders and is in the best interests of the Fund and Unitholders, and recommends that Unitholders vote in favour of the Arrangement Resolution.**

In reaching its conclusions and formulating its recommendation, the Board of Trustees, considered, among other things, the following information and factors:

- the benefits of the Arrangement described in the section of this Information Circular entitled "Background to and Reasons for the Arrangement – Benefits of the Arrangement";
- the significant decline in trading prices for securities of income trusts after the announcement of the Trust Proposal;
- the Arrangement and subsequent winding-up of the Fund and the Trust will result in a simpler business structure;
- that upon completion of the Arrangement, Unitholders will have the same proportionate indirect interest in the Pulp Business as they held immediately prior to the Arrangement taking effect;
- the Fairness Opinion;
- the mechanics, structure and timing of implementation of the Arrangement;

- the Arrangement Resolutions must receive the appropriate Unitholder approval in order to be adopted; and
- the Plan of Arrangement must be sanctioned by the Court.

The foregoing discussion of the information and factors considered and given weight by the Board of Trustees is not intended to be exhaustive. In reaching the determination to approve and recommend the Arrangement Resolution, the Board of Trustees did not assign any relative or specific weight to the factors that were considered, and individual Trustees may have given different weight to each factor. There are risks associated with the Arrangement, including that some of the potential benefits set forth in this Information Circular may not be realized.

As at March 16, 2010, the Trustees and their associates beneficially own, directly or indirectly, or exercise control or direction over, an aggregate of 78,000 Fund Units, representing approximately 0.22% of the outstanding Fund Units. Each of the Trustees has indicated he intends to vote all of his Fund Units in favour of the Arrangement Resolution.

## **THE ARRANGEMENT**

### **EFFECT OF THE ARRANGEMENT**

#### **General**

If approved, the Arrangement will result in the reorganization of the Fund's income trust structure into a dividend paying public corporation to be named "Canfor Pulp Products Inc.", and the Unitholders will become the sole shareholders of Newco which will own all of the Fund Units.

If the Arrangement Resolution is approved by the requisite majority of Unitholders at the Meeting and all other conditions set forth in the Arrangement Agreement are satisfied or waived, the Fund expects the Effective Date to be on or about January 1, 2011. It is not possible, however, to state with certainty when the Effective Date will occur.

At the Effective Time, the board of directors of Newco will be comprised of the Trustees immediately prior to the Effective Time. It is expected that, at the Effective Time, Joe Nemeth, Vice President, Sales & Marketing of the General Partner, will be President and Chief Executive Officer of Newco and Terry D. Hodgins, Chief Financial Officer and Secretary of the General Partner, will be the Chief Financial Officer and Secretary of Newco.

If the Arrangement is completed, the Fund intends that the Fund and the Trust will be wound-up, with the result that Newco will become the direct holder of the 49.8% interests in the Partnership and the General Partner currently held (indirectly) by the Fund.

#### **Effect on Unitholders**

Under the Arrangement, the Fund Units held by the Unitholders (other than the Dissenting Unitholders) will be transferred to Newco in consideration for Newco Shares on the basis of one Newco Share for each Fund Unit so transferred.

Under applicable U.S. securities laws, Newco cannot distribute Newco Shares to U.S. Unitholders who are not Qualified Purchasers. Consequently, Newco Shares otherwise distributable to Non-Qualified U.S. Unitholders under the Arrangement will be issued on their behalf to the Sale Trustee, as agent for such Unitholder (and without liability except for gross negligence or wilful misconduct). Such Newco Shares will be sold on behalf of such Non-Qualified U.S. Unitholders over the facilities of the TSX. Each Non-Qualified U.S. Unitholder will receive a pro rata share of the cash proceeds from the sale of such Newco Shares sold by the Sale Trustee (less applicable brokerage commissions and other expenses and withholding taxes) in lieu of Newco Shares. Neither the Fund nor Newco will have any liability for any such proceeds received or the remittance thereof to such Unitholders.

See "The Arrangement – Arrangement Steps", "Securities Law Matters – United States", "Principal Canadian Federal Income Tax Considerations", "Certain United States Federal Income Tax Considerations", and "The Arrangement – Procedure for Exchange of Fund Units".

#### **Effect on Distributions**

The Trustees do not expect the proposed Arrangement to affect distributions to Unitholders between the date of this Information Circular and the Effective Date. Provided the Arrangement Resolution is approved at the Meeting and assuming that the Effective Date occurs on January 1, 2011, the Fund expects that December 31, 2010 will be the record date for the last monthly distribution paid to Unitholders.

Subject to and following the Arrangement becoming effective, the Trustees of the Fund, who are expected to constitute the board of directors of Newco at the Effective Time, intend to establish as a dividend policy for Newco that it will distribute, as quarterly dividends on the Newco Shares, substantially all of the cash distributions received from the Partnership, less estimated cash amounts required for the payment of expenses and other obligations and any tax liability of Newco. The Trustees do not intend to accumulate

material cash balances in Newco. See the section of the AIF entitled "Distributions – Distributions of the Partnership" for a discussion of the distribution policy of the Partnership.

To the extent permitted by the Tax Act, Newco intends to designate any dividends paid on Newco Shares to be "eligible dividends", such that the Resident Holders that are individuals would benefit from the enhanced gross-up and dividend tax credit mechanism under the Tax Act. See "Principal Canadian Federal Income Tax Considerations – Unitholders Resident in Canada – Dividends on Newco Shares".

Notwithstanding the foregoing, the amount of any dividends payable by Newco will be at the discretion of the board of directors of Newco from time to time and dependent upon distributions by the Partnership, financial requirements of Newco, the satisfaction of solvency tests imposed by the Act for the declaration of dividends and other conditions existing from time to time. See "Dividend Record and Policy" and "Risk Factors – Risks Related to Newco" in Appendix "E".

### **Newco Tax Position Post-Arrangement**

Upon completion of the Arrangement, Newco will be liable for income tax on its 49.8% share of the taxable income of the Partnership less any deductible expenses of the corporation. There is currently a difference between the accounting value of the Partnership's assets and liabilities and the value for tax purposes of the Partnership's assets and liabilities. Newco's 49.8% share of the taxable difference between the accounting basis and the tax basis of the Partnership's assets and liabilities is projected to be approximately \$135 million at January 1, 2011. At currently enacted combined federal and provincial income tax rates of 26.5% in 2011 and 25% thereafter, this would result in a future income tax liability of approximately \$34 million, which would become payable in future years as the differences between accounting and tax basis of the Partnership's assets and liabilities are reversed.

Based on normal levels of annual capital expenditures, current accounting amortization rates, and projected annual capital cost allowance deductible for income tax purposes, the future income tax liability is projected to become payable in cash at approximately \$2 million per year commencing in 2011. This annual \$2 million income tax payable will be in addition to the income tax at the enacted rates on earnings in 2011 and subsequent years.

### **Governance of Newco**

The Fund is an entity that distributes earnings from its indirect holdings in the Partnership to Unitholders. The Fund does not conduct any active business and the role of the Trustees is to act primarily on behalf of the Fund and to manage the limited affairs of the Fund. The General Partner is the general partner of the Partnership and is therefore responsible for the management of the business of the Partnership. All of the Trustees of the Fund are independent and each Trustee is a member of the Board of Directors of the General Partner, however, under the Shareholders' Agreement, Canfor is entitled to appoint the majority of the directors of the General Partner.

Due to the passive nature of the Fund, the Fund does not have independent active management nor do the Trustees exercise supervisory functions over management of the General Partner or the Partnership. By reason of the foregoing and the number of Trustees, it has not been necessary for the Fund to function through a committee structure. The Trustees collectively discharge the functions that would otherwise be discharged by an executive committee or a governance committee and all the Trustees serve on the Audit Committee of the Fund and of the General Partner. At the Effective Time, the board of directors of Newco will be comprised of the Trustees immediately prior to the Effective Time and Newco will have the same passive nature as the Fund and, as a result, it is anticipated that, from the Effective Time, Newco will adopt the same corporate governance structure as that of the Fund.

The General Partner has the following committees: the Audit Committee, the Compensation Committee, the Governance Committee, the Planning Committee and the Search Committee. For further information regarding the General Partner's current corporate governance practices, see "Corporate Governance" in this Information Circular and the sections of the AIF entitled "Directors and Officers - Committees of the Board of Directors of the General Partner" and "Appendix "A" – Audit Committee Terms of Reference".

### **ARRANGEMENT STEPS**

Pursuant to the Arrangement, commencing at the Effective Time, each of the events set out below shall occur and shall be deemed to occur in the following order, without any further act or formality except as otherwise provided in the Plan of Arrangement:

#### **Amendment to the Fund Declaration of Trust**

- (a) the Fund Declaration of Trust shall be amended to the extent necessary to facilitate the Arrangement as provided in the Plan of Arrangement;

#### **Dissent Fund Units**

- (b) the Dissent Fund Units shall be deemed to have been transferred by the Dissenting Unitholders to the Fund (free of any claims) and cancelled. Such Dissenting Unitholders shall cease to have any rights as Unitholders in respect of the Dissent

Fund Units other than the right to be paid the fair value of their Dissent Fund Units in accordance with Article 4 of the Plan of Arrangement;

**Exchange of Fund Units for Newco Shares**

- (c) the Fund Units held by the Unitholders (other than the Dissent Fund Units transferred to the Fund in accordance with (b) above) shall be transferred to Newco in consideration for Newco Shares on the basis of one Newco Share for each Fund Unit so transferred; and

**Cancellation of Common Shares of Newco**

- (d) the one (1) Common Share of Newco issued to the Fund in connection with the incorporation and organization of Newco shall be purchased for cancellation by Newco in consideration for \$1.00, and shall be cancelled.

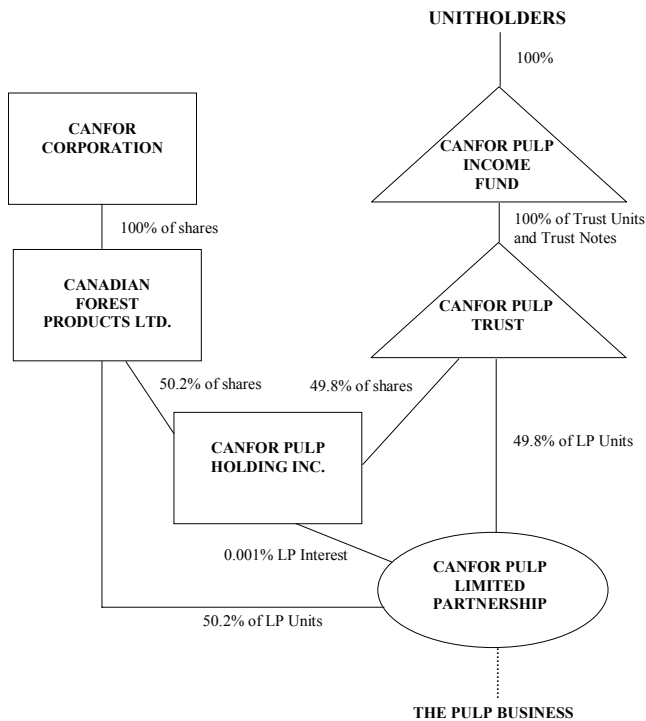
**POST-ARRANGEMENT STRUCTURE**

Upon completion of the Arrangement, the Unitholders will be the sole shareholders of Newco and Newco will own all of the issued and outstanding Fund Units. Upon the completion of the Arrangement, an aggregate of approximately 35,493,505 Newco Shares will be issued and outstanding, assuming that the same number of Fund Units are outstanding on the Effective Date as were outstanding on March 16, 2010 and that no Dissent Rights are exercised.

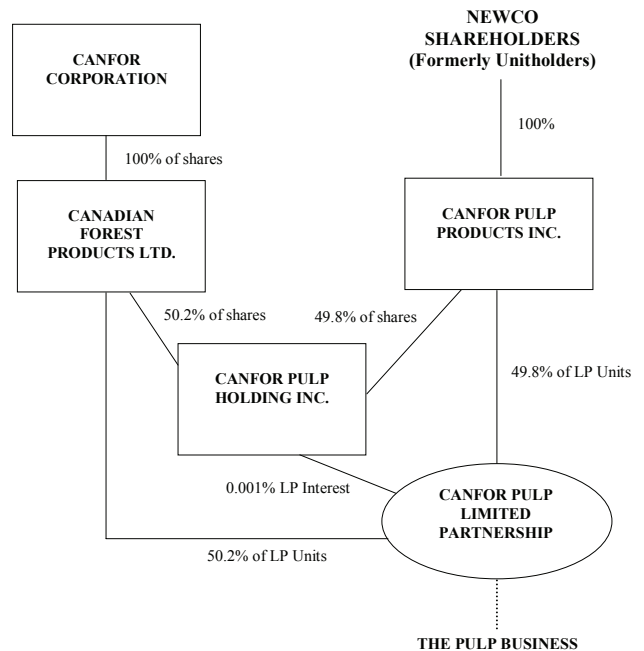
In the event the Arrangement is completed, the Fund intends that the Fund and the Trust will be wound-up, with the result that Newco will become the direct holder of the 49.8% interests in the Partnership and the General Partner currently held (indirectly) by the Fund.

The following diagrams illustrate, on a simplified basis, the organizational structure of the Fund and the Partnership as at March 16, 2010 and the organizational structure of Newco and the Partnership immediately following the completion of the Arrangement and the subsequent winding-up of the Fund and the Trust.

As at March 16, 2010:



Upon completion of the Arrangement and the winding-up of the Fund and the Trust:



See "The Arrangement – Effect of the Arrangement" and "Appendix "E" – Information Concerning Canfor Pulp Products Inc."

## ARRANGEMENT AGREEMENT

The Arrangement is being effected pursuant to the Arrangement Agreement. The Arrangement Agreement contains covenants of and from each of the Fund and Newco, and various conditions precedent, both mutual and with respect to each entity and the Fund.

The Arrangement Agreement is attached as Appendix "C" to this Information Circular and reference is made thereto for the full text thereof.

## PROCEDURE FOR ARRANGEMENT BECOMING EFFECTIVE

The Arrangement is proposed to be carried out pursuant to Section 288 of the Act. The following procedural steps must be taken for the Arrangement to become effective:

- (a) the Arrangement must be approved by the Unitholders voting at the Meeting;
- (b) the Arrangement must be approved by the Court pursuant to the Final Order; and
- (c) all conditions precedent to the Arrangement, including those set forth in the Arrangement Agreement, must be satisfied or waived by the appropriate parties.

Assuming that the above mentioned procedural steps are taken, the Arrangement will become effective at the Effective Time on the Effective Date.

## Unitholder Approval

Pursuant to the Interim Order, the number of votes required to approve the Arrangement Resolution shall be not less than two-thirds of the votes cast by Unitholders, either in person or by proxy, voting (as a single class) at the Meeting.

**If you do not specify how you want your Fund Units voted, the persons named as proxyholders will cast the votes represented by proxy at the Meeting FOR the approval of the Arrangement Resolution.**

## Court Approvals

### *Interim Order*

On March 16, 2010, the Court granted the Interim Order facilitating the calling of the Meeting and prescribing the conduct of the Meeting and other matters. The Interim Order is attached as Appendix "B" to this Information Circular.

### *Final Order*

The Act provides that an arrangement requires Court approval. Subject to the terms of the Arrangement Agreement, and if the Arrangement Resolution is approved by Unitholders at the Meeting in the manner required by the Interim Order, Newco and the Fund will make an application to the Court for the Final Order.

The application for the Final Order approving the Arrangement is currently scheduled for May 3, 2010 at 9:45 a.m. (Vancouver time), at the Courthouse, 800 Smithe Street, Vancouver, British Columbia, or at any other date and time following notification by news release to the Unitholders of the date of presentation of such application, at least two days before such date. **Any Unitholder or any other interested party who wishes to appear or be represented and to present evidence or arguments at that hearing may do so, subject to filing as appearance and any other documents required, all as set out in the Interim Order and Notice of Petition, no later than 4:00 p.m. (Vancouver time) on April 29, 2010, and satisfying any other requirements of the Court.** Such persons should consult with their legal advisors as to the necessary requirements.

The Final Order will constitute the basis for an exemption from the registration requirements of the 1933 Act, with respect to the Newco Shares to be issued to Unitholders pursuant to the Arrangement. Prior to the hearing of the application for the Final Order, the Court will be informed of this effect of the Final Order. See "Securities Law Matters – United States".

The Fund has been advised by its counsel, Stikeman Elliott LLP, that the Court has broad discretion under the Act when making orders with respect to the Arrangement and that the Court will consider, among other things, the fairness and reasonableness of the Arrangement, both from a substantive and a procedural point of view. The Court may approve the Arrangement, either as proposed or as amended, on the terms presented or substantially on those terms. Depending upon the nature of any required amendments, the Fund may determine not to proceed with the Arrangement.

For further information regarding the Court hearing and your rights in connection with the Court hearing, see the form of Interim Order and Notice of Petition attached as Appendix "B" to this Information Circular. The Notice of Petition attached as Appendix "B" to this Information Circular constitutes notice of the Court hearing of the application for the Final Order and is your only notice of the Court hearing.



## Conditions Precedent to the Arrangement

The respective obligations of Newco and the Fund to consummate the transactions contemplated by the Arrangement Agreement, and in particular the Arrangement, are subject to the satisfaction, on or before the Effective Date, of a number of conditions, any of which may be waived by the mutual consent of such parties without prejudice to their right to rely on any other of such conditions. These conditions include, without limitation:

- (a) the Interim Order shall have been granted in form and substance satisfactory to Newco and the Fund, acting reasonably, not later than March 31, 2010 or such later date as Newco and the Fund may agree and shall not have been set aside or modified in a manner unacceptable to such parties on appeal or otherwise;
- (b) the Arrangement Resolution shall have been approved by the requisite number of votes cast by the Unitholders at the Meeting in accordance with the provisions of the Interim Order and any applicable regulatory requirements;
- (c) the Final Order shall have been granted in form and substance satisfactory to Newco and the Fund, acting reasonably, not later than December 31, 2010 or such later date as Newco and the Fund may agree;
- (d) any additional conditions which may be imposed by the Interim Order or the Final Order shall have been satisfied;
- (e) no material action or proceeding shall be pending or threatened by any person, company, firm, governmental authority, regulatory body or agency and there shall be no action taken under any existing applicable law or regulation, nor any statute, rule, regulation or order which is enacted, enforced, promulgated or issued by any court, department, commission, board, regulatory body, government or governmental authority or similar agency, domestic or foreign, that:
  - (i) makes illegal or otherwise directly or indirectly restrains, enjoins or prohibits the Arrangement or any other transactions contemplated in the Arrangement Agreement; or
  - (ii) results in a judgment or assessment of material damages directly or indirectly relating to the transactions contemplated in the Arrangement Agreement;
- (f) each of the Trust Declaration of Trust, the Exchange Agreement, the Partnership Agreement, the Shareholders' Agreement, the Fund Support Agreement and the Trust Note Indenture, and any other agreement, instrument and document which either the Fund or Newco may specify by notice to the other, shall have been amended, modified, supplemented if and to the extent necessary or, in the reasonable opinion of the Fund and Newco, desirable to facilitate the transactions contemplated under the Arrangement and the subsequent wind-up of the Fund and the Trust;
- (g) the Fund shall have, or shall have entered into arrangements under which it can obtain, sufficient funds to repurchase any Fund Units held by Dissenting Unitholders (if any) in accordance with the Plan of Arrangement;
- (h) all necessary material third party and regulatory consents and approvals with respect to the transactions contemplated under the Arrangement shall have been completed or obtained;
- (i) as of the Effective Date, the aggregate number of Fund Units in respect of which Unitholders have duly and validly exercised their rights of dissent under the Interim Order (and not withdrawn such exercise) shall not exceed 1% of the Fund Units then outstanding; and
- (j) the TSX shall have conditionally approved the substitutional listing of the Newco Shares to be issued pursuant to the Arrangement as at the Effective Time, subject only to the filing of required documents which cannot be filed prior to the Effective Date.

In addition, the obligation of the Fund to consummate the transactions contemplated by the Arrangement Agreement, and in particular the Arrangement, are subject to the satisfaction, on or before the Effective Date, of the following conditions, which may be waived by the Fund without prejudice to its right to rely on any other conditions to the Arrangement:

- (a) each of the covenants, acts and undertakings of Newco to be performed or complied with on or before the Effective Date pursuant to the terms of the Arrangement Agreement and the Arrangement shall have been duly performed or complied with; and
- (b) the board of trustees of the Fund shall not have determined in their sole and absolute discretion that to proceed with the Arrangement would not be in the best interests of the Unitholders.



In addition, the obligation of Newco to consummate the transactions contemplated by the Arrangement Agreement, and in particular the Arrangement, are subject to the satisfaction, on or before the Effective Date, of the following conditions, which may be waived by Newco without prejudice to its right to rely on any other conditions to the Arrangement:

- (a) each of the covenants, acts and undertakings of the Fund to be performed or complied with on or before the Effective Date pursuant to the terms of the Arrangement Agreement and the Arrangement shall have been duly performed or complied with; and
- (b) prior to the Effective Date, there shall have been no material adverse change in the affairs, operations, financial condition or business of the Fund, the Trust, the General Partner or the Partnership or any of its Subsidiaries from that reflected in this Information Circular.

Notwithstanding the foregoing, the Arrangement Resolution proposed for consideration by the Unitholders authorizes the Board of Trustees, without further notice to or approval of such Unitholders, subject to the terms of the Arrangement, to amend or terminate the Arrangement Agreement or the Plan of Arrangement, with the prior written consent of Newco, or to revoke the Arrangement Resolution at any time prior to the Arrangement becoming effective. The full text of the Arrangement Resolution is attached as Appendix "A" to this Information Circular.

### **CONSEQUENTIAL AMENDMENTS TO EXISTING AGREEMENTS**

Under the Arrangement the Fund Declaration of Trust will be amended to the extent necessary to facilitate the Arrangement. In addition, it is currently anticipated that the Fund and the Trust will be dissolved following the Arrangement.

It is a condition precedent to the Arrangement becoming effective that certain organizational documents to which the Fund and/or the Trust is a party and contractual relationships between the Fund and the Partnership, Canfor and/or CFP be amended, modified or supplemented, if and to the extent necessary or, in the reasonable opinion of the Fund and Newco, desirable to facilitate the transactions contemplated under the Arrangement and the subsequent wind-up of the Fund and the Trust.

Such changes are not expected to affect the business of the Partnership.

### **TIMING**

If the Meeting is held as scheduled and is not adjourned and the other necessary conditions at that point in time are satisfied or waived, Newco and the Fund will apply for the Final Order approving the Arrangement on May 3, 2010 at 9:45 a.m. If the Final Order is obtained on May 3, 2010 in form and substance satisfactory to Newco and the Fund, and all other conditions set forth in the Arrangement Agreement are satisfied or waived, the Fund expects the Effective Date to be on January 1, 2011. It is not possible, however, to state with certainty when the Effective Date will occur.

The Fund's objective is to have the Effective Date occur on January 1, 2011. The Effective Date could be delayed, however, for a number of reasons, including an objection before the Court at the hearing of the application for the Final Order on May 3, 2010.

### **PROCEDURE FOR EXCHANGE OF FUND UNITS**

As the Fund Units are uncertificated and trade in the "book entry" systems, no certificates for the Newco Shares will be issued to registered or beneficial holders following the completion of the Arrangement and the beneficial holders of Fund Units do not need to take any action involving their Fund Units in order to receive Newco Shares to which they are entitled under the Arrangement. **Unitholders whose Fund Units are held through a broker, dealer, bank, trust company or other nominee may wish to contact their nominee with respect to the exchange of their Fund Units for Newco Shares.**

On or about the Effective Date, the Fund will deliver to CDS a written notice evidencing the aggregate number of Newco Shares issued to former Unitholders under the Arrangement.

Under applicable U.S. securities laws, Newco cannot distribute Newco Shares to U.S. Unitholders who are not Qualified Purchasers. Consequently, Newco Shares otherwise distributable to Non-Qualified U.S. Unitholders under the Arrangement will be issued on their behalf to the Sale Trustee, as agent for such Unitholder (and without liability except for gross negligence or wilful misconduct). Such Newco Shares will be sold on behalf of such Non-Qualified U.S. Unitholders over the facilities of the TSX. Each Non-Qualified U.S. Unitholder will receive a pro rata share of the cash proceeds from the sale of such Newco Shares sold by the Sale Trustee (less applicable brokerage commissions and other expenses and withholding taxes) in lieu of Newco Shares. Neither the Fund nor Newco will have any liability for any such proceeds received or the remittance thereof to such Unitholders.

In addition, if it appears to Newco that it would be contrary to applicable law to issue Newco Shares pursuant to the Arrangement to a person that is not a resident of Canada, Newco may (in its sole discretion), have the Newco Shares that otherwise would be issued to that person issued on his or her behalf to the Sale Trustee, as agent for such Unitholder (and without liability except for gross negligence or wilful misconduct), sell such Newco Shares on his or her behalf over the facilities of the TSX and have net proceeds of

such sale, less any applicable brokerage commissions, other expenses and withholding taxes, delivered to such Unitholder. Neither the Fund nor Newco will have any liability for any such proceeds received or the remittance thereof to any such Unitholders.

The Fund reserves the right to permit the procedure for the exchange of securities pursuant to the Arrangement to be completed other than as set forth above.

## **RIGHT TO DISSENT**

There is no mandatory statutory right of dissent and appraisal in respect of plans of arrangement under the Act. However, as contemplated in the Plan of Arrangement, the Fund has granted to Unitholders who object to the Arrangement Resolution the Dissent Rights which are set out in their entirety in the Interim Order, a copy of which is in Appendix "B" to this Information Circular. The following summary of the Dissent Rights is qualified in its entirety by the Interim Order.

A Registered Unitholder who intends to exercise the Dissent Rights must deliver a Dissent Notice to the Fund at 1700 West 75th Avenue, Vancouver, British Columbia, Canada, V6P 6G2, Attention: Terry D. Hodgins, Secretary of Canfor Pulp Holding Inc., to be received not later than 4:00 p.m. (Vancouver time) on April 23, 2010 and must not vote any Dissent Fund Units in favour of the Arrangement. A Non-Registered Unitholder who wishes to exercise the Dissent Rights must arrange for the Registered Unitholder(s) holding its Fund Units to deliver the Dissent Notice. The Dissent Notice must contain all of the information specified in the Interim Order. **A vote against the Arrangement Resolution does not constitute a Dissent Notice and a Unitholder who votes in favour of the Arrangement Resolution will not be considered a Dissenting Unitholder.**

If the Arrangement Resolution is passed at the Meeting, the Fund must send by registered mail to every Dissenting Unitholder, prior to the date set for the hearing of the Final Order, a notice (the "**Notice of Intention**") stating that, subject to receipt of the Final Order and satisfaction of the other conditions set out in the Arrangement Agreement, the Fund intends to complete the Arrangement, and advising the Dissenting Unitholder that if the Dissenting Unitholder intends to proceed with its exercise of its Dissent Rights, it must deliver to the Fund, within 14 days after the mailing of the Notice of Intention, a written statement containing the information specified by the Interim Order, together with the certificate(s), if any, representing the Dissent Fund Units.

A Dissenting Unitholder delivering such a written statement may not withdraw from its dissent and, at the Effective Time, will be deemed to have transferred to the Fund all of its Dissent Fund Units (free of any claims). Such Dissenting Unitholders shall cease to have any rights as Unitholders other than the right to be paid the fair value of their Fund Units. The Fund will pay to each Dissenting Unitholder for the Dissent Fund Units the amount agreed on by the Fund and the Dissenting Unitholder. Either the Fund or a Dissenting Unitholder may apply to Court if no agreement on the amount to be paid for the Dissent Fund Units has been reached, and the Court may:

- (a) determine the fair value that the Dissent Fund Units had immediately before the passing of the Arrangement Resolution, excluding any appreciation or depreciation in anticipation of the Arrangement unless such exclusion would be inequitable, or order that such fair value be established by arbitration or by reference to the registrar or a referee of the Court;
- (b) join in the application each other Dissenting Unitholder who has not reached an agreement with the Fund as to the amount to be paid for the Dissent Fund Units; or
- (c) make consequential orders and give directions it considers appropriate.

Dissenting Unitholders who are ultimately entitled to be paid fair value for their Fund Units will be entitled to be paid such fair value and will not be entitled to any other payment or consideration, including any payment or consideration that would be payable under the Plan of Arrangement had they not exercised their Dissent Rights.

**If a Dissenting Unitholder fails to strictly comply with the requirements of the Dissent Rights set out in the Interim Order, it will lose its Dissent Rights,** the Fund will return to the Dissenting Unitholder the certificate(s) representing the Dissent Fund Units that were delivered to the Fund, if any, and, if the Arrangement is completed, that Dissenting Unitholder shall be deemed to have participated in the Arrangement on the same terms as all other Unitholders who are not Dissenting Unitholders. In no case will the Fund, Newco or any other person be required to recognize such Dissenting Unitholders as holding Fund Units at or after the Effective Time.

Registered Unitholders wishing to exercise the Dissent Rights should consult their legal advisers with respect to the legal rights available to them in relation to the Arrangement and the Dissent Rights. Registered Unitholders should note that the exercise of Dissent Rights can be a complex, time-consuming and expensive procedure.

The Interim Order outlines certain events when Dissent Rights will cease to apply where such events occur before payment is made to the Dissenting Unitholders of their fair value of the Fund Units surrendered (including if the Arrangement Resolution does not pass or is otherwise not proceeded with). In such events, the Dissenting Unitholders will be entitled to the return of the applicable share certificate(s), if any, and rights as a Unitholder of the Fund in respect of the applicable Fund Units will be regained.

If, as of the Effective Date, the aggregate number of Fund Units in respect of which Unitholders have duly and validly exercised Dissent Rights exceeds 1% of the Fund Units then outstanding, each of the Fund and Newco is entitled, in its discretion, to not complete the Arrangement. See "The Arrangement - Arrangement Agreement — Conditions Precedent to the Arrangement".

### **INTERESTS OF CERTAIN PERSONS IN THE MATTERS TO BE ACTED UPON**

As at March 16, 2010, the Trustees and their associates, as a group, beneficially owned, directly or indirectly, or exercised control or direction over, an aggregate of 78,000 Fund Units, representing approximately 0.22% of the outstanding Fund Units. Immediately after giving effect to the Arrangement, it is anticipated that the current Trustees and their associates, as a group, would beneficially own, directly or indirectly, or exercise control or direction over, an aggregate of approximately 78,000 Newco Shares representing approximately 0.22% of the outstanding Newco Shares (assuming that the same number of Fund Units are outstanding on the Effective Date as were outstanding on March 16, 2010 and that no Dissent Rights are exercised).

Raymond James has been engaged as financial advisor to the Board of Trustees in connection with the Arrangement. Raymond James has received or will receive fees from the Fund for services rendered.

None of the principal holders of Fund Units or any Trustee, as the case may be, or any associate or affiliate of any of the foregoing persons, has or had any material interest in any transaction in the last three years or any proposed transaction that materially affected, or will materially affect, the Fund or any of its affiliates, except as disclosed above or elsewhere in this Information Circular or in documents incorporated herein by reference.

### **EXPENSES OF THE ARRANGEMENT**

The estimated costs to be incurred by the Fund with respect to the Arrangement and related matters including, without limitation, financial advisory, accounting and legal fees, and the preparation, printing and mailing of this Information Circular and other related documents and agreements, are expected to aggregate approximately \$700,000.

### **STOCK EXCHANGE LISTING**

It is a condition to completion of the Arrangement that the TSX shall have conditionally approved the substitutional listing of the Newco Shares. The TSX has conditionally approved the substitutional listing of the Newco Shares, subject to Newco fulfilling the requirements of such exchange as soon as possible after the Effective Time. After the Effective Date, Newco will be posted for trading on the TSX under the symbol "CFX".

### **SECURITIES LAW MATTERS**

#### **Canada**

The Newco Shares to be issued under the Arrangement to the Unitholders, will be issued in reliance on exemptions from prospectus and registration requirements of applicable Canadian securities laws or on discretionary exemptions from such requirements to be obtained from applicable securities regulatory authorities in Canada and, following completion of the Arrangement, the Newco Shares will generally be "freely tradeable" (other than as a result of any "control block" restrictions which may arise by virtue of the ownership thereof) under applicable Canadian securities laws of the provinces of Canada.

#### **United States**

**The following discussion is only a general overview of certain requirements of U.S. securities laws that may be applicable to the Newco Shares received upon completion of the Arrangement. Recipients of Newco Shares are urged to obtain legal advice to ensure that the resale of such securities complies with applicable U.S. securities laws. Further information applicable to U.S. Unitholders is disclosed under the heading "Management Information Circular – Information For United States Unitholders".**

The following discussion does not address the Canadian securities laws that will apply to the issue of the Newco Shares or the resale of the Newco Shares by U.S. Unitholders within Canada. U.S. Unitholders reselling their Newco Shares in Canada must comply with Canadian securities laws as outlined elsewhere in this Information Circular.

The Newco Shares to be issued under the Arrangement to Unitholders are not required to be, and will not be, registered under the 1933 Act. Such securities will be issued to U.S. Unitholders in reliance upon the exemption from registration provided by Section 3(a)(10) of the 1933 Act. Section 3(a)(10) exempts from the registration requirements under the 1933 Act securities issued in exchange for one or more *bona fide* outstanding securities where the terms and conditions of the issuance and exchange of such securities have been approved by a court of competent jurisdiction, after a hearing upon the fairness of the terms and conditions of the issuance and exchange at which all Persons to whom the securities will be issued have the right to appear and receive timely notice thereof. The Court is authorized to conduct a hearing at which the fairness of the terms and conditions of the Arrangement will be considered. Accordingly, the Final Order of the Court will, if granted, constitute a basis for the exemption from the registration requirements of the 1933 Act with respect to the Newco Shares issued in connection with the Arrangement. See "The Arrangement – Procedure for Arrangement Becoming Effective – Court Approvals – Final Order".

The restrictions on resale imposed by the 1933 Act will depend on whether the recipients of Newco Shares are "affiliates" of Newco after the Arrangement. As defined in Rule 144 under the 1933 Act, an "affiliate" of an issuer is a person that directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under the common control with, such issuer. Persons who will not be affiliates of Newco after the Arrangement may resell Newco Shares received pursuant to the Arrangement in the United States without restriction under the 1933 Act.

In addition, Newco Shares issued to Qualified U.S. Unitholders under the Arrangement will be subject to resale restrictions imposed in accordance with the provisions of the 1940 Act and may only be resold to Newco or to a purchaser who is a Qualified Purchaser. Any Qualified U.S. Unitholder should obtain the advice of its legal counsel with respect to the application of these restrictions and the 1940 Act to the offer or sale of such Newco Shares by such person.

**Fund Units will only be distributed to U.S. Unitholders who are also Qualified U.S. Unitholders. See "Qualified U.S. Unitholders" below. All Non-Qualified U.S. Unitholders will receive a cash payment in lieu of receiving Newco Shares, as set forth in "Non-Qualified U.S. Unitholders" below.**

#### *Qualified U.S. Unitholder Certification*

Prior to the Effective Date, Non-Registered Unitholders who appear to the Fund to be U.S. Unitholders, or to hold Fund Units on behalf of U.S. Unitholders, will be sent a form of Qualified U.S. Unitholder Certification which is to be completed, executed and submitted to Newco and the Fund by each U.S. Unitholder prior to the Effective Date. As discussed herein, in order for a U.S. Unitholder to be a Qualified U.S. Unitholder for the purposes of the transactions described herein, such Unitholder must indicate in a properly completed and executed Qualified U.S. Unitholder Certification that is submitted prior to the Effective Date (and not withdrawn) that such Unitholder is (or holds Fund Units on behalf of a Unitholder who is) a U.S. Unitholder and is (or the U.S. Unitholder on whose behalf it holds Fund Units is) a Qualified Purchaser, satisfies certain additional requirements under applicable securities laws and agrees to certain restrictions with regard to the Newco Shares.

However, it is important for all U.S. Unitholders, including U.S. Unitholders who are not Qualified U.S. Unitholders or who cannot otherwise satisfy the requirements to receive Newco Shares, to submit prior to the Effective Date a properly completed and executed Qualified U.S. Unitholder Certification. As discussed herein, Unitholders who are sent a Qualified U.S. Unitholder Certification but who do not submit a properly completed and executed Qualified U.S. Unitholder Certification prior to the Effective Date (or subsequently withdraw a previously submitted Qualified U.S. Unitholder Certification) will not be entitled to receive Newco Shares. Furthermore, Newco will pay the fees and costs associated with pooling and selling Newco Shares of Certifying Non-Qualified U.S. Unitholders, but will not pay such fees and costs for Non-Qualified U.S. Unitholders who have not submitted properly completed and executed Qualified U.S. Unitholder Certifications.

#### *Qualified U.S. Unitholders*

Each Qualified U.S. Unitholder will receive Newco Shares as part of the Arrangement as described in this Information Circular. However, these Newco Shares will be subject to the resale restrictions imposed in accordance with the 1940 Act.

#### *Non-Qualified U.S. Unitholders*

Under applicable U.S. securities laws, Newco cannot distribute Newco Shares to U.S. Unitholders who are not Qualified Purchasers. Consequently, Newco Shares otherwise distributable to Non-Qualified U.S. Unitholders under the Arrangement will be issued on their behalf to the Sale Trustee, as agent for such Unitholders (and without liability except for gross negligence or wilful misconduct). Such Newco Shares will be sold on behalf of such Non-Qualified U.S. Unitholders over the facilities of the TSX. Each Non-Qualified U.S. Unitholder will receive a pro rata share of the cash proceeds from the sale of such Newco Shares sold by the Sale Trustee (less applicable brokerage commissions and other expenses and withholding taxes) in lieu of Newco Shares. Neither the Fund nor Newco will have any liability for any such proceeds received or the remittance thereof to such Unitholders.

A cheque in the amount of the proceeds of such sale (net of applicable brokerage commissions and other expenses and withholding taxes) will be forwarded to the relevant former Non-Qualified U.S. Unitholder at its address as it appears on the relevant register of Unitholders maintained on behalf of the Fund. For Certifying Non-Qualified U.S. Unitholders, Newco will pay the fees and costs associated with any such pooling and sale.

In effecting the sale of any Newco Shares, the Sale Trustee will exercise its sole judgment as to the timing and manner of sale and will not be obligated to seek or obtain a minimum price for such Newco Shares. None of Newco, the Fund, the Sale Trustee or any other person will be liable for any loss arising out of any such sales except for losses arising out of its gross negligence or wilful misconduct. The sale price of the Newco Shares sold on behalf of such former Unitholders will fluctuate with the market price of the Newco Shares and no assurances can be given that any particular price will be received upon such sale.

#### **EXPERTS**

Certain Canadian legal matters relating to the Arrangement are to be passed upon by Stikeman Elliott LLP on behalf of the Fund. As at March 16, 2010, the partners and associates of Stikeman Elliott LLP beneficially owned, directly or indirectly, less than 1% of the outstanding Fund Units. Certain United States legal matters relating to the Arrangement have been passed upon by Davis Wright

Termaine LLP on behalf of the Fund. As at March 16, 2010, the partners and associates of Davis Wright Termaine LLP beneficially owned, directly or indirectly, less than 1% of the outstanding Fund Units.

## **PRINCIPAL CANADIAN FEDERAL INCOME TAX CONSIDERATIONS**

In the opinion of Stikeman Elliott LLP, Canadian counsel to the Fund ("**Counsel**"), the following is a fair and adequate summary, as of the date hereof, of the principal Canadian federal income tax consequences generally applicable under the Tax Act to Unitholders in respect of the Arrangement. This summary is only applicable to a Unitholder who, for the purposes of the Tax Act and at all relevant times, (i) holds Fund Units and will hold any Newco Shares acquired under the Arrangement as capital property, and (ii) deals at arm's length with the Fund and Newco and is not affiliated with the Fund or Newco. The Fund Units and Newco Shares will generally constitute capital property to a holder provided that the holder does not hold or use such securities in the course of carrying on a business, and the holder did not acquire such securities in one or more transactions considered to be an adventure or concern in the nature of trade. Certain holders who are residents of Canada for purposes of the Tax Act, and who might not otherwise be considered to hold their Fund Units or Newco Shares, as the case may be, as capital property may, in certain circumstances, be entitled to have such securities and any other "Canadian security" (as defined in the Tax Act) owned in the taxation year of the election and in all subsequent taxation years, deemed to be capital property by making the irrevocable election permitted by subsection 39(4) of the Tax Act. Holders contemplating making such an election should consult with their own tax advisors.

This summary is not applicable to a holder (i) that is a "financial institution" (as defined in the Tax Act) for the purpose of the "mark-to-market" rules; (ii) an interest in which would be a "tax shelter investment" (as defined in the Tax Act); (iii) that is a "specified financial institution" (as defined in the Tax Act); or (iv) that has made a "functional currency" election under the Tax Act to determine its Canadian tax results in a currency other than Canadian currency. All such holders should consult their own tax advisors. Counsel has assumed for purposes of this summary that the Fund is at all relevant times a "mutual fund trust" for purposes of the Tax Act.

This summary is based upon the facts set out in this Information Circular, the provisions of the Tax Act in force as of the date hereof, and Counsel's understanding of the current published administrative policies and assessing practices of the CRA. This summary takes into account all specific proposals (the "**Tax Proposals**") to amend the Tax Act publicly announced by or on behalf of the Minister of Finance (Canada) prior to the date hereof. However, no assurance can be given that the Tax Proposals will be enacted as currently proposed, or at all. This summary is not exhaustive of all possible Canadian federal income tax consequences and, except for the Tax Proposals, does not take into account, or anticipate any change in law, whether by legislative, administrative, or judicial action or decision and does not take into account any provincial, territorial, or foreign tax consequences, which may differ significantly from those discussed herein.

**This summary is of a general nature only and should not be construed as, nor is it intended to be, legal, business or tax advice or a representation to any particular Unitholder or holder of Newco Shares. Accordingly, such securityholders should consult with their own tax advisors with respect to the income tax consequences of the Arrangement having regard to their own particular circumstances.**

### **UNITHOLDERS RESIDENT IN CANADA**

The following portion of the summary is generally applicable to a Unitholder that is or is deemed to be, at all relevant times, a resident of Canada for the purposes of the Tax Act (a "**Resident Holder**").

#### **Exchange of Fund Units for Newco Shares**

A Resident Holder who disposes of a Fund Unit pursuant to the Arrangement in exchange for a Newco Share will be deemed (a) to have disposed of such Fund Unit for proceeds of disposition equal to the adjusted cost base (as defined in the Tax Act) of such Fund Unit to the Resident Holder immediately before the disposition, and (b) to have acquired the Newco Share received on such exchange at a cost equal to the adjusted cost base to the Resident Holder of the particular Fund Unit so exchanged. As a consequence, a Resident Holder will not realize a capital gain or capital loss on the disposition of his, her or its Fund Units to Newco in exchange for Newco Shares.

A Resident Holder will be required to include an amount in income on the exchange in circumstances where, and to the extent that, either: (i) the fair market value of all Newco Shares received by such Resident Holder on the exchange exceeds the aggregate fair market value of such Resident Holder's Fund Units immediately before the exchange; or (ii) the fair market value of such Resident Holder's Fund Units immediately before the exchange exceeds the fair market value of all Newco Shares received by such Resident Holder on the exchange, where it is reasonable to regard such excess as a benefit that the Resident Holder desired to confer on a person or partnership with whom the Resident Holder does not deal at arm's length (within the meaning of the Tax Act) (the "**Benefit Rule**"). Management of the General Partner has advised Counsel that it expects the fair market value of a Fund Unit and a Newco Share to be equal at the Effective Time. On this basis, the Benefit Rule should not apply to a Resident Holder. However, such representations as to the fair market value of Fund Units and Newco Shares are not binding on the CRA or a court.



## Dividends on Newco Shares

In the case of a Resident Holder who is an individual (other than certain trusts), dividends received or deemed to be received on the Newco Shares will be included in computing the Resident Holder's income, and will be subject to the normal gross-up and dividend tax credit rules applicable to dividends paid by taxable Canadian corporations under the Tax Act, including the enhanced gross-up and dividend tax credit applicable to any dividend designated as an "eligible dividend" in accordance with the provisions of the Tax Act. Generally, Counsel has been advised that it is the current intention of Newco to designate any dividends paid on Newco Shares to be "eligible dividends" to the extent permitted by the Tax Act such that the Resident Holders that are individuals would benefit from the enhanced gross-up and dividend tax credit mechanism under the Tax Act.

Dividends received or deemed to be received on the Newco Shares by a Resident Holder that is a corporation will generally be included in the Resident Holder's gross income for the taxation year in which such dividends are received and will generally be deductible in computing the Resident Holder's taxable income. A Resident Holder that is a "private corporation" (as defined in the Tax Act) or any other corporation controlled, whether because of a beneficial interest in one or more trusts or otherwise, by or for the benefit of an individual (other than a trust) or a related group of individuals (other than trusts), may be liable to pay a refundable tax of 33% under Part IV of the Tax Act on dividends received (or deemed to be received) in the taxation year on the Newco Shares to the extent such dividends are deductible in computing such Resident Holder's taxable income for the year.

A taxable dividend received by a Resident Holder who is an individual or trust (other than certain specified trusts) may result in such Resident Holder being liable for alternative minimum tax under the Tax Act. Any such Resident Holder should consult with his or her tax advisor in this regard.

## Disposition of Newco Shares

A disposition or a deemed disposition of a Newco Share by a Resident Holder will generally result in the Resident Holder realizing a capital gain (or a capital loss) in the taxation year of the disposition equal to the amount by which the proceeds of disposition of the Newco Share, net of any reasonable costs of disposition, exceed (or is exceeded by) the adjusted cost base of the Newco Share to the Resident Holder. The adjusted cost base of a Newco Share to a Resident Holder at any particular time will generally be the average of the adjusted cost base of all Newco Shares held by such Resident Holder as capital property at that time. Such capital gain (or capital loss) will be subject to the general tax treatment described below under "— Taxation of Capital Gains and Capital Losses".

## Dissenting Unitholders

Pursuant to the Arrangement, a Dissenting Unitholder will be deemed to have transferred its Fund Units to the Fund (free of any claims), and such Dissenting Unitholder will cease to have any rights as a Unitholder other than the right to be paid the fair value of its Fund Units by the Fund in accordance with the Arrangement.

A Dissenting Unitholder will realize a capital gain (or capital loss) equal to the amount by which the cash received as payment for its Fund Units, net of any reasonable costs of disposition, exceeds (or is exceeded by) the adjusted cost base of such Fund Units to the Dissenting Unitholder. For a discussion regarding the general treatment of capital gains and losses, please see the section below entitled "—Taxation of Capital Gains and Capital Losses".

## Taxation of Capital Gains and Capital Losses

Generally, one-half of any capital gain (a "**taxable capital gain**") realized by a Resident Holder in a taxation year must be included in the Resident Holder's income for the year, and one-half of any capital loss (an "**allowable capital loss**") realized by a Resident Holder in a taxation year must be deducted from taxable capital gains realized by the Resident Holder in that year. Allowable capital losses for a taxation year in excess of taxable capital gains for that year may, generally, be carried back and deducted in any of the three preceding taxation years or carried forward and deducted in any subsequent taxation year against net taxable capital gains realized in such years, to the extent and under the circumstances described in the Tax Act.

Capital gains realized by a Resident Holder who is an individual or trust (other than certain specified trusts) may give rise to alternative minimum tax under the Tax Act.

The amount of any capital loss realized by a Resident Holder that is a corporation on the disposition of a Newco Share may be reduced by the amount of dividends received or deemed to be received by the Resident Holder on such Newco Share to the extent and under the circumstances described in the Tax Act. Similar rules may apply where a corporation is a member of a partnership or a beneficiary of a trust that owns Newco Shares, directly or indirectly, through a partnership or a trust. Resident Holders to whom these rules may be relevant should consult their own tax advisors.

A Resident Holder that is throughout the year a "Canadian-controlled private corporation" (as defined in the Tax Act) may be liable to pay, in addition to tax otherwise payable under the Tax Act, a refundable tax of 6 ⅔% on certain investment income, including taxable capital gains.

## **UNITHOLDERS NOT RESIDENT IN CANADA**

The following portion of the summary is generally applicable to a Unitholder that is, at all relevant times, neither a resident of Canada nor deemed to be a resident of Canada for purposes of the Tax Act, and does not use or hold, and is not deemed to use or hold, its Fund Units in carrying on a business in Canada (a "**Non-Resident Holder**"). Special rules, which are not discussed in this summary, may apply to a Non-Resident Holder that is an insurer carrying on business in Canada and elsewhere.

### **Exchange of Fund Units for Newco Shares**

A Non-Resident Holder who disposes of a Fund Unit for a Newco Share pursuant to the Arrangement will generally not realize a capital gain or capital loss on the same basis as a Resident Holder as described above under "Unitholders Resident in Canada – Exchange of Fund Units for Newco Shares". Where the Fund Units held by a Non-Resident Holder constitute "taxable Canadian property" (as defined in the Tax Act) to the Non-Resident Holder, the Newco Shares received upon the Arrangement will be deemed to be "taxable Canadian property" to the Non-Resident Holder throughout the period that begins at the time of the exchange and ends on the day that is 60 months after the exchange.

Fund Units will generally not be considered taxable Canadian property to a Non-Resident Holder unless at any time during the 60-month period immediately preceding the disposition of the Fund Units, the Non-Resident Holder or persons with whom the Non-Resident Holder did not deal at arm's length or any combination thereof, held 25% or more of the issued Fund Units and, at any time during such 60-month period, more than 50% of the fair market value of such Fund Units was derived directly or indirectly from one or any combination of: (i) real or immovable properties situated in Canada, (ii) "Canadian resource properties" (as defined in the Tax Act), (iii) "timber resource properties" (as defined in the Tax Act), and (iv) options in respect of, or interests in, or for civil law rights in, property in any of the foregoing, whether or not the property exists.

### **Dissenting Unitholders**

As noted above, pursuant to the Arrangement, a Dissenting Unitholder will be deemed to have transferred its Fund Units to the Fund (free of any claims), and such Dissenting Unitholder will cease to have any rights as a Unitholder other than the right to be paid the fair value of its Fund Units by the Fund in accordance with the Arrangement.

It is not clear whether any amount that would be paid by the Fund to a Dissenting Unitholder that is a Non-Resident Holder under the Arrangement would be subject to Canadian withholding tax. Under the Tax Act, an amount paid or credited by the Fund to a Non-Resident Holder will be subject to a 15% withholding tax if the Fund Units are listed on a designated stock exchange (which currently includes the TSX) and more than 50% of the fair market value of the Fund Units is attributable to one or more properties each of which is real property situated in Canada, a "Canadian resource property" or a "timber resource property". Management of the General Partner has advised Counsel that, as of the date hereof, it does not believe that more than 50% of the fair market value of the Fund Units is attributable to one or more of such properties. However, no assurances can be given that not more than 50% of the fair market value of the Fund Units will be attributable to one or more of such properties as at the Effective Time. Accordingly, Management of the General Partner has advised Counsel that if it determines that more than 50% of the fair market value of the Fund Units is attributable to one or more properties each of which is real property situated in Canada, a "Canadian resource property" or a "timber resource property" at the Effective Time, it will withhold such tax from any amounts paid or credited to a Dissenting Unitholder that is a Non-Resident Holder pursuant to the Arrangement. A Non-Resident Holder may be entitled to receive a refund of all or a portion of such amounts as are withheld by the Fund if the Non-Resident Holder disposes of Fund Units (or similar units of other Canadian mutual fund trusts or shares of Canadian mutual fund corporations) at a loss, and files a special Canadian income tax return.

Except as described in the preceding paragraph, a Dissenting Unitholder that is a Non-Resident Holder will generally not be liable to Canadian income tax on a disposition of a Fund Unit to the Fund unless the Non-Resident Holder's Fund Unit is, or is deemed to be, taxable Canadian property to the Non-Resident Holder at the time of disposition and the Non-Resident Holder is not entitled to relief under an applicable tax treaty between Canada and the country of residence of the Non-Resident Holder. As noted above, Fund Units will generally not be considered taxable Canadian property to a Non-Resident Holder unless, at any time during the 60-month period immediately preceding the disposition of the Fund Units, the Non-Resident Holder, persons with whom the Non-Resident Holder did not deal at arm's length, or the Non-Resident Holder together with all such persons, owned 25% or more of the issued Fund Units and, at any time during such 60-month period, more than 50% of the fair market value of such Fund Units was derived directly or indirectly from one or any combination of: (i) real or immovable properties situated in Canada, (ii) "Canadian resource properties", (iii) "timber resource properties", and (iv) options in respect of, or interests in, or for civil law rights in, property in any of the foregoing, whether or not the property exists.

### **Dividends on Newco Shares**

Dividends paid or deemed to be paid to a Non-Resident Holder on Newco Shares will be subject to Canadian withholding tax at the rate of 25% of the gross amount of the dividend unless such rate is reduced under the provisions of a tax treaty between Canada and the Non-Resident Holder's jurisdiction of residence.

## Disposition of Newco Shares

A Non-Resident Holder will generally not be liable to Canadian income tax on a disposition or deemed disposition of a Newco Share unless the Non-Resident Holder's Newco Share is, or is deemed to be, taxable Canadian property to the Non-Resident Holder at the time of disposition and the Non-Resident Holder is not entitled to relief under an applicable tax treaty between Canada and the country of residence of the Non-Resident Holder.

Generally, a Newco Share will not be taxable Canadian property to a Non-Resident Holder at a particular time provided that either: (a) at no time during the 60-month period preceding the particular time did such Newco Share derive more than 50% of its fair market value directly or indirectly from one or any combination of: (i) real or immovable properties situated in Canada, (ii) "Canadian resource properties", (iii) "timber resource properties", and (iv) options in respect of, or interests in, or for civil law rights in, property in any of the foregoing, whether or not the property exists; or (b) such share is listed on a "designated stock exchange" (as defined in the Tax Act and which currently includes the TSX) at that time and at no time during the 60-month period ending at that time, did the Non-Resident Holder, persons not dealing at arm's length with such Non-Resident Holder or the Non-Resident Holder together with all such persons, own 25% or more of the issued shares of any class or series of the capital stock of Newco. Notwithstanding the foregoing, in certain circumstances set out in the Tax Act, Newco Shares could be deemed to be taxable Canadian property. In particular, if a Fund Unit held by a Non-Resident Holder is taxable Canadian property to such Non-Resident Holder, a Newco Share received by the Non-Resident Holder under the Arrangement will be deemed to be taxable Canadian property to such Non-Resident Holder throughout the period that begins at the time of the exchange and ends on the day that is 60 months after the exchange (See the discussion above under "Unitholders Not Resident in Canada - Exchange of Fund Units for Newco Shares").

## ELIGIBILITY FOR INVESTMENT

In the opinion of Stikeman Elliott LLP, provided the Newco Shares are listed on a "designated stock exchange" for purposes of the Tax Act (which currently includes the TSX) on the Effective Date, Newco Shares issued under the Arrangement will be, as at such date, qualified investments under the Tax Act for a trust governed by a registered retirement savings plan, a registered retirement income fund, a registered education savings plan, a registered disability savings plan, a deferred profit sharing plan, or a tax-free savings account (a "TFSA").

Notwithstanding that the Newco Shares may be a qualified investment for a trust governed by a TFSA, the holder of a TFSA will be subject to a penalty tax on the Newco Shares held in the TFSA if such Newco Shares are a "prohibited investment" for that TFSA. The Newco Shares will generally not be a "prohibited investment" provided that the holder of the TFSA deals at arm's length with Newco for purposes of the Tax Act and does not have a "significant interest" (within the meaning of the Tax Act) in Newco or a corporation, partnership or trust with which Newco does not deal at arm's length for purposes of the Tax Act. Holders are advised to consult their own advisors in this regard.

## CERTAIN UNITED STATES FEDERAL INCOME TAX CONSIDERATIONS

**Circular 230 Disclosure. The following discussion regarding United States federal tax matters is not intended or written to be used, and cannot be used, by any taxpayer for purposes of avoiding any United States tax penalties. Such discussion is written in connection with the marketing or promotion of the transaction to which the Information Circular relates. Each taxpayer should seek advice based on the taxpayer's particular circumstances from an independent tax advisor.**

## INTRODUCTION

The following discussion is a summary that describes the principal U.S. federal income tax considerations with respect to the Arrangement applicable to "U.S. Holders" (as defined below). This summary is based upon the Internal Revenue Code of 1986, as amended (the "**Code**"), the regulations promulgated under the Code (the "**Code Regulations**"), proposed or temporary regulations promulgated under the Code (the "**Proposed Regulations**"), the legislative history of the Code, the United States-Canada Tax Convention of 1980, as amended by various Protocols (the "**Treaty**"), judicial decisions, and administrative rulings and pronouncements of the Internal Revenue Service (the "**IRS**"), all as they are now in effect. This summary does not take into account potential changes in the Code, Regulations, Proposed Regulations, Treaty, future judicial decisions or future administrative pronouncements, any of which may have retroactive effect and may significantly affect the U.S. tax consequences to U.S. Holders.

This summary does not address all potentially relevant federal income tax matters to a U.S. Holder. This summary does not address the U.S. tax consequences to, and the term "U.S. Holder" does not include, persons subject to specific provisions of U.S. federal income tax law, including but not limited to tax-exempt organizations, qualified retirement plans, individual retirement accounts and other tax-deferred accounts, financial institutions, insurance companies, real estate investment trusts, regulated investment companies, broker-dealers, non-resident alien individuals, persons or entities that have a "functional currency" other than the U.S. dollar, and persons who hold Fund Units as part of a straddle, hedging or a conversion transaction. This summary is limited to U.S. Holders who own Fund Units as capital assets and who hold the Fund Units directly (e.g., not through an intermediary entity such as a corporation, partnership, limited liability company, or trust).



This summary does not address U.S. alternative minimum tax considerations that may be applicable to a U.S. Holder. In addition, this summary does not cover any estate, gift, state, local or non-United States tax consequences of the Arrangement to a U.S. Holder.

No ruling has been received or requested from the IRS concerning any matters discussed herein. In addition, no U.S. tax opinions have been requested or obtained with respect to matters discussed herein.

The discussion contained herein is of a general nature only and is not intended to constitute a complete analysis of the U.S. tax consequences of the Arrangement and should not be interpreted as legal or tax advice to any U.S. Holder, as U.S. tax consequences may vary depending upon the U.S. Holder's particular circumstances. Each U.S. Holder should obtain advice from its own tax advisor as to the U.S. federal, state, local, and non-U.S. tax consequences and tax reporting requirements resulting from the Arrangement.

## **U.S. HOLDERS**

As used herein, a "**U.S. Holder**" means a Unitholder who is (i) a citizen or individual resident (as defined under U.S. tax laws) of the United States; (ii) a corporation created or organized in or under the laws of the United States or of any political subdivision thereof; (iii) an estate, the income of which is taxable in the United States irrespective of source; or (iv) a trust if (a) a court within the United States is able to exercise primary supervision over the trust's administration and one or more U.S. persons have the authority to control all of its substantial decisions or (b) the trust was in existence on August 20, 1996, and has properly elected to continue to be treated as a U.S. person.

## **TREATMENT OF THE FUND FOR U.S. FEDERAL INCOME TAX PURPOSES**

The Fund is, and has been, treated as a corporation for U.S. federal income tax purposes. As a result, Fund Units are treated as stock of a corporation for United States federal income tax purposes.

## **CERTAIN UNITED STATES FEDERAL INCOME TAX CONSEQUENCES OF THE ARRANGEMENT**

### **Taxation of the Arrangement to U.S. Holders**

Subject to the application of Code Section 367 and the rules for passive foreign investment companies ("**PFICs**"), both discussed below, the following United States federal income tax consequences should result for U.S. Holders: (a) U.S. Holders should not recognize gain or loss as a result of the Arrangement, (b) a U.S. Holder will hold its Newco Shares with an adjusted basis equal to its adjusted basis in its Fund Units and (c) the holding period for a U.S. Holder's Newco Shares will include its holding period for its Fund Units.

### **U.S. Holders Exercising Dissent Rights**

A U.S. Holder that exercises Dissent Rights in the Arrangement and is paid cash in exchange for such U.S. Holder's Fund Units generally will recognize gain or loss in an amount equal to the difference, if any, between (a) the amount of cash received by such U.S. Holder in exchange for its Fund Units and (b) the adjusted tax basis of such U.S. Holder in the Fund Units surrendered. Subject to the PFIC rules (discussed below), such gain or loss generally will be capital gain or loss, which will be long-term capital gain or loss if the U.S. Holder's holding period for the Fund Units is more than one year. Preferential tax rates apply to long-term capital gains of a U.S. Holder that is an individual, estate or trust. Deductions for capital losses are subject to limitations under the Code. U.S. Holders who exercise Dissent Rights in the Arrangement are urged to consult their own tax advisors.

### **Section 367 of the Code**

Section 367 of the Code imposes certain conditions for U.S. persons to obtain tax-deferred treatment for transactions such as the Arrangement, where stock of a non-U.S. corporation is exchanged for stock of another non-U.S. corporation. Section 367 of the Code requires that any U.S. Holder who owns, directly or indirectly, 5% or more of the stock (by vote or value) of Newco (a "**5% shareholder**") immediately after the Arrangement must enter into a "gain recognition agreement" with the IRS in order to avoid recognizing gain on the Arrangement. If the 5% shareholder does not enter into such an agreement, gain is required to be recognized by the 5% shareholder even if the Arrangement qualifies for tax-deferred treatment and gain is not otherwise required to be recognized. U.S. Holders who are not 5% shareholders may be required to satisfy certain reporting requirements imposed by the Regulations promulgated under Section 367 of the Code.

### **PFIC Rules**

#### *In General*

U.S. tax law contains rules that classify certain foreign corporations as passive foreign investment companies, or PFICs. If 75% or more of a foreign corporation's gross income consists of passive income (as defined under the PFIC rules), or if 50% or more of the average value of all assets held by the corporation during the taxable year consists of passive assets (generally, assets that generate passive income), the PFIC rules apply to the corporation's U.S. shareholders.

The Fund believes that it is not currently a PFIC and that it has not been a PFIC in prior years. Further, it is not expected that Newco will be a PFIC. However, PFIC status is fundamentally factual in nature, generally cannot be determined until the close of the taxable year in question and is a determination that is made annually. Consequently, no assurance can be given that the Fund is not a PFIC for the current taxable year or has not been a PFIC for any prior year, and no assurance can be given that Newco will not be a PFIC for the current taxable year or any subsequent taxable year.

If the Fund or Newco is, or was, classified as a PFIC in any year that includes a U.S. Holder's holding period for Fund Units, then it will generally continue to be treated as a PFIC for such U.S. Holder in all succeeding years, regardless of whether the entity continues to meet the income or asset tests described above.

#### *Impact of PFIC Rules on the Arrangement*

The U.S. federal income tax consequences to a U.S. Holder of a PFIC depend on whether a "qualified electing fund" ("**QEF**") election, a "mark-to-market" election or no election has been made. A U.S. Holder that has made a timely QEF election or mark-to-market election is referred to in this summary as an "**Electing Shareholder**", and a U.S. Holder who has not made a timely QEF election is referred to as a "**Non-Electing Shareholder**".

An Electing Shareholder generally recognizes gain on taxable dispositions of PFIC stock, with the same tax treatment resulting as the taxable disposition of stock of a corporation that is not a PFIC. An Electing Shareholder does not recognize gain in a transaction that otherwise qualifies for tax-deferred treatment. Thus, assuming the Arrangement qualifies for tax-deferred treatment, a U.S. Holder who is an Electing Shareholder should not recognize gain under the PFIC rules as a result of the Arrangement.

For a transaction that otherwise qualifies for tax-deferred treatment, a Non-Electing Shareholder is required to recognize gain on the disposition of PFIC stock unless the Non-Electing Shareholder receives in the exchange stock of another corporation that is classified as a PFIC for the taxable year that includes the day after the Arrangement is effective. As noted above, the Fund believes that it is not a PFIC and has not been a PFIC in prior years, and that Newco will not be a PFIC. If the Fund is or has been a PFIC and Newco is not classified as a PFIC for its taxable year that includes the day after the Arrangement, a Non-Electing Shareholder of the Fund will be required to recognize gain (but not loss) as a result of the Arrangement (regardless of whether the Arrangement qualifies for tax-deferred treatment), as if the Fund Units were sold in a taxable disposition. In addition, Non-Electing Shareholders generally lose any preferential capital gain treatment on a taxable disposition of shares in the PFIC and have an increased liability on such gain and on certain distributions due to an interest charge on the tax (to reflect the deferral of U.S. tax as earnings or appreciation arose with respect to the stock).

The PFIC rules are complex and subject to interpretation. Due to the complexity of the PFIC rules, U.S. Holders are strongly urged to consult their own tax advisors concerning the impact of these rules on their investments and the consequences and reporting requirements resulting from the Arrangement. In addition, U.S. Holders should consult with their tax advisors regarding the elections that are available to them, including, without limitation, a QEF election and a mark-to-market election, and whether such elections are advantageous.

#### **Information Reporting and Backup Withholding**

No U.S. information reporting or backup withholding generally should apply to the Arrangement. For U.S. Holders that exercise their Dissent Rights and receive cash for their Fund Units, however, payments made within the United States or by a United States payor or middleman of proceeds arising from the disposition of Fund Units pursuant to the Arrangement will be subject to information reporting and backup withholding (currently at the rate of 28%), unless the U.S. Holder is eligible for an exception or provides the payor an IRS Form W-9. Any amounts withheld under these rules will be allowed as a refund or credit against the U.S. Holder's United States federal income tax liability, provided that required information is furnished to the IRS.

#### **CERTAIN UNITED STATES FEDERAL INCOME TAX CONSIDERATIONS OF OWNING NEWCO SHARES**

The U.S. federal income tax considerations of owning Newco Shares are generally described below. The discussion is not comprehensive and covers only some of the tax considerations. The tax consequences may differ depending on the particular circumstances of each Newco Shareholder. U.S. Holders are strongly advised to consult their own tax advisors with respect to the U.S. federal income tax consequences of owning Newco Shares.

#### **Distributions on Newco Shares**

A U.S. Holder that receives a distribution, including a constructive distribution, with respect to Newco Shares will be required to include the amount of such distribution in gross income as ordinary income (without reduction for any Canadian income tax withheld from such distribution) to the extent, if any, of the current or accumulated "earnings and profits" of Newco. To the extent that a distribution exceeds the current and accumulated "earnings and profits" of Newco, such distribution will be treated (1) first, as a tax-free return of capital to the extent of the U.S. Holder's adjusted basis in the Newco Shares and, (2) thereafter, as gain from the sale or exchange of such shares. (See more detailed discussion at "Disposition of Newco Shares" below). Dividends paid on the Newco Shares generally will not be eligible for the dividends-received deduction normally available to United States corporate shareholders.

For taxable years beginning before January 1, 2011, a dividend paid by a non-U.S. corporation generally will be taxed at the preferential tax rates applicable to long-term capital gains if (a) the corporation is a "qualified foreign corporation" ("**QFC**") (as defined below), (b) the U.S. Holder receiving such dividend is an individual, estate, or trust, and (c) such dividend is paid on shares that have been held by such U.S. Holder for at least 61 days during the 121-day period beginning 60 days before the "ex-dividend date" (i.e., the first date that a purchaser of such shares will not be entitled to receive such dividend). Subject to application of the PFIC rules (discussed above), if Newco is not a QFC, a dividend paid by Newco to a U.S. Holder, including a U.S. Holder that is an individual, estate, or trust, generally will be taxed at ordinary income tax rates (and not at the preferential tax rates applicable to long-term capital gains).

Newco generally will be a QFC if it is eligible for the benefits of the Treaty and is not a PFIC (as defined above) for the taxable year during which Newco pays a dividend or for the preceding taxable year. As discussed above, it is uncertain whether Newco is or will in the future be a PFIC. Accordingly, it is uncertain whether Newco is currently a QFC, and there can be no assurance that Newco will be a QFC in any future taxable years.

### **Disposition of Newco Shares**

Subject to application of the PFIC rules (discussed above), a U.S. Holder will recognize gain or loss on the sale or other taxable disposition of Newco Shares in an amount equal to the difference, if any, between (a) the amount of cash plus the fair market value of any property received and (b) such U.S. Holder's adjusted basis in the Newco Shares sold or otherwise disposed of. If the PFIC rules do not apply, any such gain or loss generally will be capital gain or loss, which will be long-term capital gain or loss if the Newco Shares were held for more than one year at the time of the sale or other taxable disposition. Preferential tax rates currently apply to long-term capital gains of a U.S. Holder that is an individual, estate, or trust. There are currently no preferential tax rates for long-term capital gains of a U.S. Holder that is a corporation. Deductions for capital losses are subject to significant limitations.

### **Passive Foreign Investment Company Considerations**

If Newco is, or becomes, a PFIC (as defined above), the preceding sections of "Certain United States Federal Income Tax Considerations of Owning Newco Shares" may not describe the United States federal income tax consequences to U.S. Holders of the acquisition, ownership and disposition of Newco Shares received pursuant to the Arrangement. Special, and generally unfavorable, rules are applicable to U.S. Holders owning shares in a PFIC.

It is not currently expected that Newco will be a PFIC. However, PFIC status is fundamentally factual in nature, generally cannot be determined until the close of the taxable year in question and is a determination that is made annually. Consequently, no assurance can be given that the Fund is not a PFIC for the current taxable year or for any prior years, and no assurance can be given that Newco will not be a PFIC for the current taxable year or any subsequent taxable year. U.S. Holders are strongly urged to consult their own tax advisors regarding the application of the PFIC rules to ownership of Newco Shares.

### **Foreign Tax Credit**

A U.S. Holder who pays (whether directly or through withholding) Canadian or other foreign income tax with respect to Newco Shares generally will be entitled, at the election of such U.S. Holder, to receive either a deduction or a credit for the Canadian or other foreign income tax paid. A credit generally will reduce a U.S. Holder's U.S. federal income tax liability on a dollar-for-dollar basis, whereas a deduction will reduce a U.S. Holder's income subject to U.S. federal income tax. This election is made on a year-by-year basis and applies to all foreign income taxes paid (whether directly or through withholding) by a U.S. Holder during a year. Complex limitations apply to the foreign tax credit, which may have the effect of reducing the amount of the foreign tax credit available to a U.S. Holder below the amount of Canadian or other foreign income tax paid. Each U.S. Holder should consult its own tax advisor regarding the application of the foreign tax credit rules to the U.S. Holder's particular circumstances.

### **Information Reporting and Backup Withholding**

Backup withholding (currently at the rate of 28%) may be imposed on a U.S. Holder on payments of dividends made by Newco, or as a result of certain sales or other taxable dispositions of Newco Shares, unless the U.S. Holder is eligible for an exception or provides the payor an IRS Form W-9. Any amounts withheld under these rules will be allowed as a refund or credit against the U.S. Holder's U.S. federal income tax liability, provided that required information is furnished to the IRS. Each U.S. Holder should consult its own tax advisor regarding the information reporting and backup withholding tax rules.

### **FOREIGN CURRENCY**

The amount of any cash distribution on the Newco Shares, or the proceeds paid in Canadian dollars to a U.S. Holder in connection with the ownership of Newco Shares, or on the sale, exchange or other taxable disposition of Newco Shares, generally will be included in the gross income of a U.S. Holder based on the exchange rate applicable on the date of receipt of the payment, regardless of whether the Canadian dollars are converted into U.S. dollars at that time. A U.S. Holder that does not convert Canadian dollars on the date of receipt will have a tax basis in such currency equal to the U.S. dollar value of the Canadian dollar on the date of receipt. Such a U.S. Holder generally will recognize ordinary income or loss on the subsequent sale or other taxable disposition of the Canadian dollars.

## **UNCERTAINTY REGARDING U.S. TAX CONSEQUENCES**

U.S. tax consequences of the Arrangement to U.S. Holders are dependent upon a number of provisions of the Code, the application and interpretation of which are subject to considerable uncertainty. Accordingly, notwithstanding the efforts of the Fund and Newco and their U.S. Holders to comply with applicable U.S. tax law, the federal income tax return of U.S. Holders may be audited and such U.S. Holders may be required to file amended returns and may be subject to assessments by the IRS for additional taxes, interest and penalties.

**THE FOREGOING SUMMARY OF CERTAIN U.S. INCOME TAX CONSEQUENCES IS INCLUDED FOR GENERAL INFORMATION ONLY AND DOES NOT CONSTITUTE LEGAL ADVICE TO ANY UNITHOLDER. BECAUSE INDIVIDUAL CIRCUMSTANCES MAY DIFFER, EACH BENEFICIAL U.S. HOLDER IS URGED TO CONSULT HIS, HER, OR ITS OWN TAX ADVISOR AS TO THE PARTICULAR TAX CONSEQUENCES TO THE ARRANGEMENT, INCLUDING THE APPLICATION AND EFFECT OF U.S. FEDERAL, STATE, LOCAL, FOREIGN AND OTHER TAX LAWS.**

THE ABOVE SUMMARY IS NOT INTENDED TO CONSTITUTE A COMPLETE ANALYSIS OF ALL TAX CONSIDERATIONS APPLICABLE TO UNITHOLDERS WITH RESPECT TO THE DISPOSITION OF FUND UNITS IN EXCHANGE FOR NEWCO SHARES PURSUANT TO THE ARRANGEMENT. UNITHOLDERS SHOULD CONSULT THEIR OWN TAX ADVISORS REGARDING THE TAX CONSIDERATIONS APPLICABLE TO THEM IN THEIR PARTICULAR CIRCUMSTANCES.

## **INFORMATION CONCERNING THE FUND**

### **THE FUND, THE TRUST, THE PARTNERSHIP AND THE GENERAL PARTNER**

The Fund is an unincorporated open-ended trust established under the laws of Ontario pursuant to a declaration of trust made as of April 19, 2006. The Fund was created to indirectly acquire an interest in the Partnership through its holding of Trust Units and Trust Notes.

The Trust is an unincorporated open-ended trust established under the laws of Ontario pursuant to a trust declaration made as of April 19, 2006. All of the Trust Units and Trust Notes are owned by the Fund. The Trust was formed to hold LP Units and a corresponding interest in the General Partner.

The Partnership is a limited partnership formed under the laws of Manitoba pursuant to a limited partnership agreement made as of April 19, 2006. The Partnership was formed to hold the Pulp Business.

The General Partner is a corporation incorporated under the laws of Canada. The General Partner was formed to act as general partner of the Partnership and to operate the Pulp Business on behalf of the Partnership in its capacity as general partner.

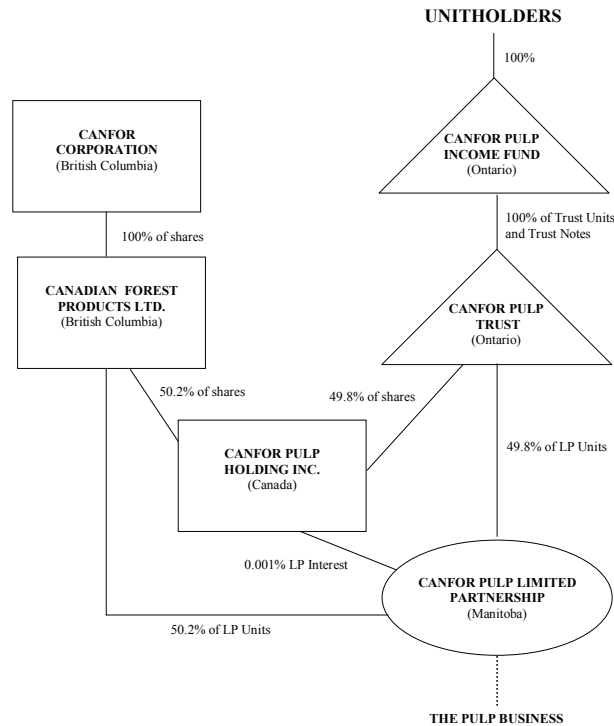
The principal and head office of the Fund, the Trust, the General Partner and the Partnership is located at 1700 West 75<sup>th</sup> Avenue, Vancouver, British Columbia V6P 6G2.

The registered office of the Fund, the Trust, the General Partner and the Partnership is located at 1700 West 75<sup>th</sup> Avenue, Vancouver, British Columbia V6P 6G2.

For a description of the development of the business of the Fund, see the sections entitled "The Pulp and Paper Business of the Partnership", "The Business of the Fund", "The Business of the Trust", "The Business of the Partnership" and "The Business of the General Partner" in the AIF.

## INTERCORPORATE RELATIONSHIPS

The following diagram illustrates, on a simplified basis, the organizational structure of the Fund and the Partnership as at March 16, 2010 (including jurisdiction of establishment/incorporation of the various entities).



## SUMMARY DESCRIPTION OF THE BUSINESS OF THE FUND

The Fund was established to acquire and hold Trust Units as well as the Trust Notes. For a description of the business of the Fund, see the sections entitled "The Pulp and Paper Business of the Partnership", "The Business of the Fund", "The Business of the Trust", "The Business of the Partnership" and "The Business of the General Partner" in the AIF.

## DOCUMENTS INCORPORATED BY REFERENCE

Information in respect of the Fund, the Trust, the General Partnership, the Partnership and their respective Subsidiaries has been incorporated by reference in this Information Circular from documents filed with securities commissions or similar authorities in Canada. Copies of the documents incorporated herein by reference may be obtained on request, without charge, from the Secretary of the General Partner, at 1700 West 75<sup>th</sup> Avenue, Vancouver, British Columbia V6P 6G2, telephone: +1-604-661-5269 and are also available electronically at [www.sedar.com](http://www.sedar.com).

The following documents of the Fund, filed by the Fund with the various securities commissions or similar authorities in each of the provinces and territories of Canada, are specifically incorporated by reference into and form an integral part of this Information Circular:

- (a) the AIF;
- (b) the Financial Statements; and
- (c) the Management's Discussion and Analysis.

Any documents of the type referred to above as well as any financial information, management information circulars, business acquisition reports and any material change reports (excluding confidential material change reports) subsequently filed by the Fund with securities regulatory authorities in Canada, after the date of this Information Circular and prior to the completion or withdrawal of the Arrangement, shall be deemed to be incorporated by reference in this Information Circular.

**Any statement contained in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for the purposes of this Information Circular, to the extent that a statement contained in this Information Circular or in any other subsequently filed document which also is or is deemed to be**

**incorporated by reference herein modifies or supersedes such statement. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the document that it modifies or supersedes. The making of a modifying or superseding statement shall not be deemed an admission for any purposes that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made. Any statement so modified or superseded shall not constitute a part of this Information Circular, except as so modified or superseded.**

## **DEBT FINANCING**

The Fund does not have any debt financing; however because the ability of the Fund to make distributions is largely dependent on the distributions it receives (through the Trust) from the Partnership, the degree to which the Partnership is leveraged can have important consequences to the holders of Fund Units including: the Partnership's ability to obtain additional financing for working capital could be affected, capital expenditures or acquisitions in the future may be limited; a significant portion of the Partnership's cash flow from operations may be dedicated to the payment of the principal of and interest on its indebtedness, thereby reducing funds available for future operations; certain borrowings will be at variable rates of interest, which exposes the Partnership to the risk of increased interest rates; and the Partnership may be more vulnerable to economic downturns and be limited in its ability to withstand competitor pressures.

As at December 31, 2009, the Partnership had outstanding long-term debt of U.S.\$110 million in the form of unsecured US dollar private placement notes issued under the Term Facility. The notes bear interest at 6.41% and are repayable in full on their maturity date of November 30, 2013. The Partnership also has a \$40 million unsecured bank credit facility on the terms of the Bank Facility, of which \$0.5 million was utilized as at December 31, 2009. The Bank Facility matures on November 30, 2011. In addition the Partnership has arranged a separate facility with a maturity date of November 30, 2011 to cover the \$16.0 million standby letter of credit issued to BC Hydro under the Electricity Purchase Agreement. See the sections of the AIF entitled "Risk Factors" and "Material Contracts" for further information concerning the Credit Facilities.

## **SIGNIFICANT ACQUISITIONS**

There are no acquisitions that the Fund has completed within 75 days prior to the date of this Information Circular that are significant acquisitions for the purposes of Part 8 of NI 51-102. In addition, there are no proposed acquisitions that have progressed to a state where a reasonable person would believe that the likelihood of the acquisition being completed is high and would be a significant acquisition for the purposes of Part 8 of NI 51-102 if completed as of the date of this Information Circular.

## **DISTRIBUTION HISTORY**

The Fund makes distributions of its Adjusted Distributable Cash to Unitholders of record on the last Business Day of each month, to be paid on the 15th day following each month end, or, if not a Business Day, the next Business Day thereafter. The amount to be distributed on a pro-rata basis per month per Fund Unit is equal to the Fund's net monthly cash receipts, less estimated cash amounts required for the payment of expenses and other obligations of the Fund and cash redemptions of Fund Units and any tax liability. The Fund may make additional distributions in excess of the monthly distributions during the year, as the Fund Trustees may determine from time to time, and may increase or decrease or halt cash distributions from time to time as they see fit.

As the Fund is an income trust, it does not pay dividends. The table below sets out the cash distributions declared by the Fund from the effective date of the Spinout on July 1, 2006 until March 16, 2010, on a per Fund Unit basis.

<b><u>Record Date</u></b>	<b><u>Monthly Distribution</u></b>	<b><u>Supplemental Distribution</u></b>	<b><u>Total Distribution</u></b>	<b><u>Date Payable</u></b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	
August 2, 2006	0.12	-	0.12	August 15, 2006
August 31, 2006	0.12	-	0.12	September 15, 2006
September 29, 2006	0.12	0.08	0.20	October 13, 2006
October 31, 2006	0.12	0.08	0.20	November 15, 2006
November 30, 2006	0.12	0.12	0.24	December 15, 2006
December 29, 2006	0.14	0.22	0.36	January 15, 2007
January 31, 2007	0.14	-	0.14	February 15, 2007
February 28, 2007	0.14	-	0.14	March 16, 2007
March 30, 2007	0.14	-	0.14	April 13, 2007
April 30, 2007	0.14	-	0.14	May 15, 2007
May 31, 2007	0.18	-	0.18	June 15, 2007
June 29, 2007	0.18	-	0.18	July 13, 2007
July 31, 2007	0.18	-	0.18	August 15, 2007

<u>Record Date</u>	<u>Monthly Distribution</u>	<u>Supplemental Distribution</u>	<u>Total Distribution</u>	<u>Date Payable</u>
	\$	\$	\$	
August 31, 2007	0.18	-	0.18	September 14, 2007
September 28, 2007	0.18	-	0.18	October 15, 2007
October 31, 2007	0.14	-	0.14	November 15, 2007
November 30, 2007	0.12	-	0.12	December 14, 2007
December 31, 2007	0.12	-	0.12	January 15, 2008
January 31, 2008	0.12	-	0.12	February 15, 2008
February 29, 2008	0.12	-	0.12	March 14, 2008
March 31, 2008	0.12	-	0.12	April 15, 2008
April 30, 2008	0.12	-	0.12	May 15, 2008
May 30, 2008	0.12	-	0.12	June 13, 2008
June 30, 2008	0.12	-	0.12	July 15, 2008
July 31, 2008	0.12	-	0.12	August 15, 2008
August 29, 2008	0.12	-	0.12	September 15, 2008
September 30, 2008	0.12	-	0.12	October 15, 2008
October 31, 2008	0.12	-	0.12	November 14, 2008
November 28, 2008	0.12	-	0.12	December 15, 2008
December 31, 2008	0.04	-	0.04	January 15, 2009
January 30, 2009	0.04	-	0.04	February 13, 2009
February 27, 2009	0.01	-	0.01	March 13, 2009
March 31, 2009	0.01	-	0.01	April 15, 2009
April 30, 2009	0.01	-	0.01	May 15, 2009
May 31, 2009	0.01	-	0.01	June 15, 2009
June 30, 2009	0.01	-	0.01	July 15, 2009
July 31, 2009	0.01	-	0.01	August 14, 2009
August 31, 2009	0.01	-	0.01	September 15, 2009
September 30, 2009	0.01	-	0.01	October 15, 2009
October 31, 2009	0.01	-	0.01	November 13, 2009
November 30, 2009	0.05	-	0.05	December 15, 2009
December 31, 2009	0.08	-	0.08	January 15, 2010
January 29, 2010	0.08	-	0.08	February 15, 2010
February 26, 2010	0.12	-	0.12	March 16, 2010

The amount of distributions remains subject to review throughout the year, and any changes to the monthly distribution amounts are subject to the approval of the Trustees.

The historical distributions described above may not be reflective of future distributions and future distributions are not assured. See "Risks related to the Structure of the Fund" in the AIF.

#### **PRICE RANGE AND TRADING VOLUME OF FUND UNITS**

The outstanding Fund Units are listed and posted for trading on the TSX under the trading symbol "CFX.UN". The following table sets forth the price range for and trading volume of the Fund Units as reported by the TSX for the periods indicated:

	<u>Price Range</u>		<u>Volume (#)</u>
	<u>High (\$)</u>	<u>Low (\$)</u>	
<b>2009</b>			
February	2.85	1.61	1,673,112
March	1.68	1.30	2,511,522
April	2.65	1.35	3,348,712
May	3.21	1.85	1,526,350
June	2.50	1.89	1,438,746
July	3.24	2.18	1,215,107
August	4.20	3.10	1,464,641



	<b>Price Range</b>		<b>Volume (#)</b>
	<b>High (\$)</b>	<b>Low (\$)</b>	
September	4.35	3.81	1,158,600
October	6.00	4.10	1,660,277
November	7.25	4.80	1,930,235
December	8.98	7.03	1,478,526
<b>2010</b>			
January	8.85	7.86	1,800,177
February	10.62	7.47	3,348,835
March (to March 16)	12.73	10.30	3,071,829

On March 16, 2010, the date of this Information Circular, the closing price of a Fund Unit as reported by the TSX was \$12.39.

#### **PRIOR SALES**

No securities of the Fund or securities convertible into securities of the Fund were issued during the 12 months preceding the date of this Information Circular.

#### **LEGAL PROCEEDINGS**

To the knowledge of the Trustees, there are no outstanding legal proceedings material to the Fund to which the Fund, the General Partner, the Partnership or their respective Subsidiaries are a party or in respect of which any of their respective assets are subject, nor are there any such proceedings known to the Fund to be contemplated.

#### **AUDITORS, TRANSFER AGENT AND REGISTRAR**

The auditors of the Fund are PricewaterhouseCoopers LLP, Chartered Accountants, located at 250 Howe Street, Suite 700, Vancouver, British Columbia, Canada, V6C 3S7.

The transfer agent and registrar for the Fund Units is CIBC Mellon at its principal transfer offices in Montreal, Toronto, Vancouver, Calgary and Halifax.

#### **INFORMATION CONCERNING NEWCO**

Newco was incorporated on March 12, 2010 pursuant to the provisions of the Act and is a wholly-owned Subsidiary of the Fund. The principal and head office of Newco is located at 1700 West 75<sup>th</sup> Avenue, Vancouver, British Columbia, Canada, V6P 6G2.

On the Effective Date, Newco will become a reporting issuer in all Canadian jurisdictions and will become subject to the informational reporting requirements under the securities laws of such jurisdictions as a result of the Arrangement.

Reference is made to "Appendix "E" – Information Concerning Canfor Pulp Products Inc." for a more detailed description of Newco and certain pro forma information in respect of Newco.

#### **RISK FACTORS**

An investment in Fund Units and in Newco Shares is subject to certain risks. Readers should carefully consider the risk factors described under the heading "Risks Factors" in the AIF incorporated by reference in this Information Circular as well as the risk factors set forth below and elsewhere in this Information Circular.

**Risk factors in respect of the business of the Fund, the Partnership and its Subsidiaries and the industry in which they operate will continue to apply to Newco after the Effective Date and will not be affected by the Arrangement. For a description of these risk factors and for risk factors specific to Newco, see "Appendix "E" – Information Concerning Canfor Pulp Products Inc. – Risk Factors".**

#### **RISK FACTORS RELATING TO THE ARRANGEMENT**

##### **Conditions Precedent and Required Regulatory and Third Party Approvals**

The completion of the Arrangement in the form contemplated by the Plan of Arrangement is subject to a number of conditions precedent, some of which are outside the control of the Fund, including, without limitation, receipt of Unitholder approval at the Meeting, the amendment of the Trust Declaration of Trust, the Exchange Agreement, the Partnership Agreement, the Shareholders' Agreement and the Trust Note Indenture, and any other agreement, instrument and document which any of the Fund or Newco may

specify, third party and regulatory approvals, approval by the TSX of the substitutional listing of the Newco Shares to be issued pursuant to the Arrangement and the Final Order. There can be no certainty, nor can the Fund provide any assurance, that these conditions will be satisfied or, if satisfied, when they will be satisfied.

Failure to obtain the Final Order on terms acceptable to the Board of Trustees would likely result in the decision being made not to proceed with the Arrangement. If any of the required amendments, regulatory and third party approvals cannot be obtained on terms satisfactory to the Board of Trustees or at all, the Plan of Arrangement may have to be amended in order to mitigate against the negative consequence of the failure to obtain any such approval, and accordingly, the benefits available to Unitholders resulting from the Arrangement may be reduced. Alternatively, in the event that the Plan of Arrangement cannot be amended so as to mitigate against the negative consequences of the failure to obtain a required regulatory or third party approval, the Arrangement may not proceed at all. If the Arrangement is not completed, the market price of the Fund Units may be adversely affected. See "The Arrangement – Procedure for the Arrangement Becoming Effective".

#### *Risk Factors Relating to the Fund, the Partnership and the Industry*

Certain risk factors relating to the activities of the Fund, the General Partner, the Partnership and their respective Subsidiaries and the industry in which they operate are contained in the AIF which is incorporated herein by reference. Such risk factors include, without limitation, Canfor's control of the Partnership, the Fund's dependence on the Partnership, the uncertainty of dividends and distributions, risks relating to the nature of fund units, the potential for dilution of existing Unitholders, leverage and restrictive covenants in agreements relating to indebtedness of the Partnership, the structural subordination of the Fund Units, the potential for future sales of Fund Units by CFP, certain income tax matters, implications of Unitholder exercise of redemption rights under the Fund Trust Declaration, the limitations on the Partnership's potential growth as a result of the payout of all or substantially all of its operating cash flow, the possibility that the Fund and its stakeholders may not be able to access certain statutory remedies in the event of a restructuring, the untested nature of limited unitholder liability under the *Trust Beneficiaries' Liability Act* (Ontario), the nature of distributions by income trusts on trust units, the possibility that the Fund may be required, in certain circumstances, to issue additional Fund Units to Unitholders in lieu of cash payments, the cyclicity of product prices, currency exchange risk, the Partnership's dependence on Canfor, raw material costs, the competitive markets in which the Partnership operates, the Partnership's dependence on key customers, production capacity, obligations to BC Hydro and maintenance obligations and potential facility disruptions, the effect of governmental regulation on the Partnership, the Partnership's capital requirements, work stoppages, native land claims, transportation services, risks associated with future acquisitions and the Partnership's dependence on senior management. See the section entitled "Risk Factors" in the AIF.

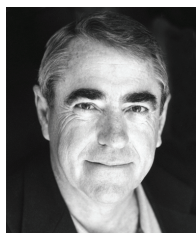
### **ANNUAL BUSINESS OF THE MEETING**

The Meeting will be constituted as an annual general meeting as well as a special meeting. As part of the annual business set out in the Notice of Meeting, the Financial Statements will be placed before Unitholders by the Fund and Unitholders will be asked to consider and vote on (i) the election of the Trustees of the Fund who will serve until the end of the next annual general meeting of the Fund or until their successors are appointed, (ii) the appointment of the auditors of the Fund for the ensuing year and (iii) such other business as may properly come before the Meeting.

### **ELECTION OF TRUSTEES**

Pursuant to the Fund Declaration of Trust, the number of Trustees to be elected to the Board of Trustees of the Fund at the Meeting is determined from time to time by resolution of the Trustees, such number being not more than seven and not less than three. The Trustees have fixed the number of Trustees to be elected at the Meeting at three. All Trustees elected at the Meeting will hold office until the next annual general meeting of Unitholders or until their successors are duly elected or appointed.

The Fund proposes to nominate for election as Trustees at the Meeting the persons listed in the following table. All proposed nominees have consented to be named in this Information Circular and to serve as Trustees if elected. The Fund has no reason to believe that any proposed nominee will be unable to serve as a Trustee, but should any such nominee become unable to do so for any reason prior to the Meeting, the persons named in the enclosed form of proxy, unless directed to withhold from voting, reserve the right to vote for other nominees in their discretion. The following table sets forth the name and principal occupation for each proposed nominee for election as Trustee, including principal occupations during the past five years. In addition, the table shows the date on which each proposed nominee first became a Trustee and the number of Fund Units of the Fund that each proposed nominee beneficially owns, directly or indirectly, or exercises control or direction over as at March 16, 2010.



**Stan E. Bracken-Horrocks, FCA**, of Kelowna, British Columbia, Canada was appointed an initial Fund Trustee on April 28, 2006. Mr. Bracken-Horrocks is a director of Canfor Pulp Holding Inc. Mr. Bracken-Horrocks is a retired partner of PricewaterhouseCoopers LLP and held various leadership positions during his career with PricewaterhouseCoopers LLP, including Global Leader of its Forest and Paper Industry practice. As a member of the Canadian Institute of Chartered Accountants, Mr. Bracken-Horrocks served as a member of the Board of Governors and a member of the Accounting Standards Committee and, as a member of the Institute of Chartered Accountants of British Columbia, he served as a member of council, Vice-President and President. Mr. Bracken-Horrocks is a director and Chairman of the Audit Committee of the Business Development Bank of Canada.

No. of Fund Units Held

<u>2009</u>	<u>2008</u>
15,000	3,000

Mr. Bracken-Horrocks chairs the Fund's Audit Committee.



**Donald W. Campbell**, of Montreal, Quebec, Canada was appointed an initial Fund Trustee on April 28, 2006. Mr. Campbell is a director of Canfor Pulp Holding Inc. Mr. Campbell is Senior Strategy Advisor of Davis LLP, a position he has held since May, 2007. Previously, he was Executive Vice President of CAE Inc. 2006 - 2007 and Group President, Military Simulation and Training Division, CAE 2000 - 2006. Prior to this position, Mr. Campbell served as Deputy Foreign Minister and as the Prime Minister's Personal Representative for G-8 Summits (1997-2000), Canada's Ambassador to Japan (1993-1997), Deputy Minister for International Trade (1989-1993) and Canada's Ambassador to Korea (1984-1985). Mr. Campbell is currently a director of Toyota Canada Inc., Perimeter Institute, ExelTech Aerospace Inc. and Davie Yards Inc. Mr. Campbell is a Distinguished Fellow of the Asia Pacific Foundation and the Canadian Chair of the Pacific Economic Cooperation Council. In April 1999, Mr. Campbell received the Outstanding Achievement Award of the Public Service of Canada from the Governor General and the Prime Minister. In 2003, Mr. Campbell was appointed by the Prime Minister as the Canadian Co-Chairman of the Canada-Japan Forum, an external advisory group established by the governments of Japan and Canada to provide advice and to promote the bilateral relationship between the two countries. Mr. Campbell is a graduate of Laurier University (Hon. B.A. Economics and Political Science) and holds Honorary Doctorate degrees from the University of Ottawa, Carleton University and Laurier University. He is a graduate of the Institute of Corporate Directors programme of the University of Toronto and holds an ICD.D.

No. of Fund Units Held

<u>2009</u>	<u>2008</u>
61,000	11,000

Mr. Campbell is a member of the Fund's Audit Committee.



**Charles J. Jago, PhD, C.M.**, of Prince George, British Columbia, Canada, was appointed an initial Fund Trustee on April 28, 2006. Dr. Jago is Chairman and director of Canfor Pulp Holding Inc. Dr. Jago was President of the University of Northern British Columbia 1995-2006 and on an interim basis from 2008-09. Dr. Jago's professional service has included membership on the Boards of the Association of Universities and Colleges of Canada, the Association of Commonwealth Universities, the Office of Partnerships for Advanced Skills (OPAS) and Partnerships B.C. Dr. Jago has also served as Chair of the Council of Western University Presidents, The University President's Council of British Columbia, and the Northern BC United Way. He currently chairs the Boards of the Northern Health Authority of British Columbia and the Fraser Basin Council and serves as a member of the Board of Initiatives Prince George. Dr. Jago received his BA in Honours English and History from the University of Western Ontario in London, Ontario, graduating as the Honours gold medalist from Huron University College (an affiliated college of The University of Western Ontario), and received a PhD in History from Cambridge University. Dr. Jago was awarded the Queen's Jubilee Medal for community service in 2003 and the Order of Canada in 2006.

No. of Fund Units Held

<u>2009</u>	<u>2008</u>
2,000	2,000

Dr. Jago is a member of the Fund's Audit Committee.

To the knowledge of the Fund, no Trustee nominee of the Fund and no director of the General Partner was within the last 10 years of the date of this Information Circular, a director or executive officer of a company that, while acting in that capacity, (i) was subject to a cease trade or similar order for a period of 30 consecutive days; (ii) was subject to an event that resulted, after the director or executive officer ceased in such capacity, in a cease trade or similar order for a period of 30 consecutive days; or (iii) within a year of ceasing to act in such capacity, became bankrupt, made a proposal under legislation relating to bankruptcy or insolvency or was subject to any proceedings, arrangement or compromise with creditors or had a receiver or trustee appointed to hold its assets, other than:

- (a) Mr. Don Campbell was a director of Rutter Inc. ("**Rutter**"), which voluntarily requested a management cease trade order ("**MCTO**") as a result of Rutter's delay in filing its audited annual financial statements, CEO and CFO certifications, MD&A and annual information form for the year ended August 31, 2008 (the "**Required Filings**"). Rutter attributed this delay to the lack of final agreement on a potential restructuring of the debt with Rutter's principal lender. The Ontario Securities Commission ("**OSC**") issued a temporary MCTO on December 2, 2008 which prohibited the then current Chief Executive Officer of Rutter (the "**Rutter CEO**") and Chief Financial Officer of Rutter (the "**Rutter CFO**") from trading in or acquiring securities of Rutter for a period of 15 days. The OSC issued a permanent MCTO on December 16, 2008, prohibiting the Rutter CEO and Rutter CFO from trading in or acquiring securities of Rutter until the earlier of two (2) full business days after the Required Filings were received by the OSC, or a further order of the OSC (in the case of the permanent MCTO). The Required Filings were made on or about January 12, 2009 and the permanent MCTO was subsequently lifted. Neither the temporary nor the permanent MCTO were imposed on Mr. Campbell. Mr. Campbell ceased to be a director of Rutter on January 15, 2010.
- (b) Mr. Campbell was a director of Mecachrome International Inc. ("**Mecachrome**") from July, 2007 to December, 2009. Between December 2008 to 2009, Mecachrome obtained creditor protection from the Quebec Superior Court under the Companies Creditors Arrangement Act (Canada). In December, 2009, Mecachrome completed its financial restructuring and reorganization process. Mr. Campbell ceased to be a director in December 2009.
- (c) Mr. Campbell is a director of ExelTech Aerospace Inc. ("**ExelTech**"). On February 4, 2010, ExelTech filed a notice of intention (NOI) to file a proposal under the Bankruptcy and Insolvency Act (Canada), seeking protection from its creditors. On February 9, 2010, the Superior Court of Quebec appointed RSM Richter Inc. as interim receiver of the assets of ExelTech Canada Inc., a wholly-owned subsidiary of ExelTech.
- (d) Mr. Campbell is a director of Davie Yards Inc. ("**Davie**"). On February 25, 2010, Davie filed for creditor protection under the Companies' Creditors Arrangement Act (Canada) with the Quebec Superior Court;
- (e) Mr. Stinson is a director of Grant Forest Products Inc. ("**Grant**"). On June 25, 2009, Grant obtained creditor protection from the Ontario Superior Court under the Company Creditors Agreement Act (Canada).
- (f) Messrs. Bentley and Shepard, each of whom was a director and/or executive officer of HSPP General Partner Ltd., general partner of Howe Sound Pulp and Paper Limited Partnership ("**HSLP**"), during the period of January 29 to February 1, 2008 when HSLP completed a restructuring under the Companies' Creditors Arrangement Act (Canada).

To the knowledge of the Fund, no Trustee nominee of the Fund has within the last 10 years of the date of the Information Circular, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the Trustee nominee. To the knowledge of the Fund, no Trustee nominee of the Fund has been subject to any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority, or has been subject to any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable Unitholder in deciding whether to vote for a Trustee nominee.

#### **THE DIRECTORS OF THE GENERAL PARTNER**

Pursuant to the Shareholders' Agreement, CFP is entitled to appoint a majority of the 8 directors to the Board of Directors of the General Partner for so long as it owns not less than 30% of the outstanding LP Units (see "Principal Holder of Fund Units" herein). Messrs. Bentley, Shepard, Lusztig, Richards and Stinson are CFP's nominees to the General Partner's Board. Messrs. Cliff and Nemeth have been nominated to replace Messrs. Lusztig and Richards on April 27, 2010.

The table below sets out, among other things, the names of the directors of the General Partner, together with their municipality of residence, the date they became directors, their principal occupation and other principal directorships and committee memberships. Also indicated is the number of Fund Units beneficially owned, directly or indirectly, or over which control was exercised as of March 16, 2010.



**Peter J. G. Bentley, LL.D, O.C.**, of Vancouver, British Columbia, Canada was appointed to the Board of the General Partner on April 28, 2006. Mr. Bentley has served on the Board of Canfor Corporation since 1966. Mr. Bentley is Chairman Emeritus of the Board of Directors of Canfor Corporation, and Co-chairman and a Director of HSPP General Partner Ltd., the general partner of Howe Sound Pulp and Paper Limited Partnership.

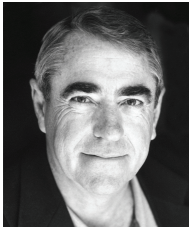
No. of Fund Units Held

<u>2009</u>	<u>2008</u>
857,946	747,946

After working in various positions with Canfor Corporation, Mr. Bentley became Executive Vice-President in 1970, President in 1975, and Chairman and Chief Executive Officer ("CEO") in 1985, a position he held until April 24, 1995. Mr. Bentley was reappointed to the position of President and CEO of Canfor Corporation on July 25, 1997 and relinquished the position of President and CEO of the Company on January 1, 1998.

Mr. Bentley is President and a Director of Sierra Mountain Minerals Inc. and a member of the Board of the Canadian Institute for Advanced Research, a member of the Advisory Board of BuildDirect.com and a Trustee and Chair Emeritus of the Vancouver General Hospital and University of British Columbia Hospital Foundation. He also served for many years as a Director of Bank of Montreal and Shell Canada Ltd. Mr. Bentley retired as Chancellor of the University of Northern British Columbia in May 2007. Mr. Bentley holds Honorary Doctorate of Law degrees from the University of British Columbia and University of Northern British Columbia.

Mr. Bentley chairs the General Partner's Compensation Committee and is a member of the Planning and Search Committees.



**Stan E. Bracken-Horrocks, FCA**, of Kelowna, British Columbia, Canada was appointed to the Board of the General Partner on April 28, 2006. Mr. Bracken-Horrocks is a retired partner of PricewaterhouseCoopers LLP and held various leadership positions during his career with PricewaterhouseCoopers LLP, including Global Leader of its Forest and Paper Industry practice. As a member of the Canadian Institute of Chartered Accountants, Mr. Bracken-Horrocks served as a member of the Board of Governors and a member of the Accounting Standards Committee and, as a member of the Institute of Chartered Accountants of British Columbia, he served as a member of council, Vice-President and President. Mr. Bracken-Horrocks is a director and Chairman of the Audit Committee of the Business Development Bank of Canada.

No. of Fund Units Held

<u>2009</u>	<u>2008</u>
15,000	3,000

Mr. Bracken-Horrocks chairs the General Partner's Audit Committee and is a member of the General Partner's Compensation Committee.





**Donald W. Campbell**, of Montreal, Quebec, Canada was appointed to the Board of the General Partner on April 28, 2006. Mr. Campbell is Senior Strategy Advisor of Davis LLP, a position he has held since May, 2007. Previously, he was Executive Vice President of CAE Inc. 2006 - 2007 and Group President, Military Simulation and Training Division, CAE 2000 - 2006. Prior to this position, Mr. Campbell served as Deputy Foreign Minister and as the Prime Minister's Personal Representative for G-8 Summits (1997-2000), Canada's Ambassador to Japan (1993-1997), Deputy Minister for International Trade (1989-1993) and Canada's Ambassador to Korea (1984-1985). Mr. Campbell is currently a director of Toyota Canada Inc., Perimeter Institute, ExelTech Aerospace Inc. and Davie Yards Inc. Mr. Campbell is a Distinguished Fellow of the Asia Pacific Foundation and the Canadian Chair of the Pacific Economic Cooperation Council. In April 1999, Mr. Campbell received the Outstanding Achievement Award of the Public Service of Canada from the Governor General and the Prime Minister. In 2003, Mr. Campbell was appointed by the Prime Minister as the Canadian Co-Chairman of the Canada-Japan Forum, an external advisory group established by the governments of Japan and Canada to provide advice and to promote the bilateral relationship between the two countries. Mr. Campbell is a graduate of Laurier University (Hon. B.A. Economics and Political Science) and holds Honorary Doctorate degrees from the University of Ottawa, Carleton University and Laurier University. He is a graduate of the Institute of Corporate Directors programme of the University of Toronto and holds an ICD.D.

Mr. Campbell chairs the General Partner's Planning Committee and is a member of the Audit and Governance Committees.

<u>No. of Fund Units Held</u>	
<u>2009</u>	<u>2008</u>
61,000	11,000



**Charles J. Jago, PhD, C.M.**, of Prince George, British Columbia, Canada, was appointed to the Board of the General Partner on April 28, 2006. Dr. Jago is Chairman of the General Partner. Dr. Jago was President of the University of Northern British Columbia 1995-2006 and on an interim basis from 2008-09. Dr. Jago's professional service has included membership on the Boards of the Association of Universities and Colleges of Canada, the Association of Commonwealth Universities, the Office of Partnerships for Advanced Skills (OPAS) and Partnerships B.C. Dr. Jago has also served as Chair of the Council of Western University Presidents, The University President's Council of British Columbia, and the Northern BC United Way. He currently chairs the Boards of the Northern Health Authority of British Columbia and the Fraser Basin Council and serves as a member of the Board of Initiatives Prince George. Dr. Jago received his BA in Honours English and History from the University of Western Ontario in London, Ontario, graduating as the Honours gold medalist from Huron University College (an affiliated college of The University of Western Ontario), and received a PhD in History from Cambridge University. Dr. Jago was awarded the Queen's Jubilee Medal for community service in 2003 and the Order of Canada in 2006.

Dr. Jago chairs the General Partner's Search Committee and is a member of the Audit, Compensation, Governance and Planning Committees.

<u>No. of Fund Units Held</u>	
<u>2009</u>	<u>2008</u>
2,000	2,000



**Peter A. Lusztig, PhD, CGA**, of Vancouver, British Columbia, Canada was appointed to the Board of the General Partner on April 28, 2006. Mr. Lusztig is Dean Emeritus of Sauder School of Business at the University of British Columbia. Mr. Lusztig served as the federal commissioner for the B.C. Treaty Commission (Federal) (1995-2003) and is a past director of Canfor Corporation, ROINS Financial Holdings, Royal SunAlliance, Tree Island Industries, ICBC and the Vancouver General Hospital and its Foundation. He was also the Chair and a trustee of the Healthcare Benefit Trust (BC). Mr. Lusztig received his Commerce Degree from the University of British Columbia, his Master of Business Administration from the University of Western Ontario and his Doctorate Degree from Stanford University.

Mr. Lusztig chairs the General Partner's Governance Committee and is a member of the Audit Committee.

<u>No. of Fund Units Held</u>	
<u>2009</u>	<u>2008</u>
2,096	2,096



**Paul A. Richards**, of West Vancouver, British Columbia, Canada was appointed to the Board of the General Partner on April 28, 2006. Mr. Richards is the President and Chief Executive Officer of the General Partner and prior to July 1, 2006 held the position of Vice-President, Pulp and Paper of Canfor. Prior to May 2, 2005, Mr. Richards was Vice-President, Pulp Manufacturing for Weldwood of Canada Limited, overseeing operations at Hinton and Quesnel, a position he held from 1997-2004. Prior to that, Mr. Richards served in a variety of positions with Repap from 1984 to 1997, most recently Vice-President and General Manager of Repap New Brunswick. Mr. Richards is a director of Forest Products Association of Canada.

Mr. Richards received a Bachelor of Chemical Engineering degree from the Technical University of Nova Scotia.

<u>No. of Fund Units Held</u>	
<u>2009</u>	<u>2008</u>
67,163	51,353



**James F. Shepard, P.Eng.**, of Vancouver, British Columbia, Canada was appointed to the Board of the General Partner on May 4, 2007. Mr. Shepard is President and Chief Executive Officer of Canfor Corporation.

Mr. Shepard retired from Finning International Inc. in April 2000 after a 32-year career, including nine years as CEO (1991 to 2000). Mr. Shepard also served as Chairman of the Board of Finning International Inc., Chairman of the Board of MacDonald Dettwiler and Associates Inc., Vice-Chairman of the Conference Board of Canada, Vice-Chairman of the Business Council on National Issues, Honorary Chairman of Leadership Vancouver and is the past Chairman of the Executive Committee for the Business Council of B.C. He was founding Co-Chairman of the Business Summit of B.C. and is a member of The Conference Board, Inc., New York. Mr. Shepard is a former Director of Imperial Oil Limited and was the initial Chairman of the Cabinet of the Business Laureates of the B.C. Hall of Fame.

Mr. Shepard received a B.Sc. Degree in Civil Engineering from the University of British Columbia and is a member of the Association of Professional Engineers of B.C.

<u>No. of Fund Units Held</u>	
<u>2009</u>	<u>2008</u>
81,000	10,000



**William W. Stinson**, of Vancouver, British Columbia, Canada was appointed to the Board of the General Partner on February 17, 2009.

Mr. Stinson spent the majority of his business career with Canadian Pacific Ltd. retiring as Chairman and CEO in 1996 after 11 years in that position. He has served on a wide variety of boards and has held the positions of Chairman of Sun Life Financial, Chairman of the Executive Committee of United Dominion Industries and Lead Director of CHC Helicopters Ltd. He is currently the Chairman and CEO of Westshore Terminals Income Fund and a Director of Grant Forest Products Ltd.

Mr. Stinson is a member of the General Partner's Audit, Compensation, Planning and Search Committees.

<u>No. of Fund Units Held</u>	
<u>2009</u>	<u>2008</u>
95,000	20,000



Messrs. Cliff and Nemeth have been nominated to replace Messrs. Lusztig and Richards on April 27, 2010.



**Ronald L. Cliff, C.M., F.C.A.**, of West Vancouver, British Columbia, Canada is nominated for appointment to the Board of the General Partner on April 27, 2010.

Mr. Cliff is Chairman of the Board of Directors of Canfor Corporation and its subsidiary, Canadian Forest Products Ltd. ("CFP"). Mr. Cliff is Chairman of Heathcliff Properties Ltd. He is also President of the Heathcliff Foundation.

Mr. Cliff was Chairman and a director of BC Gas Inc. (now Terasen Inc.) from 1972 to 2002. He also served as a director of the Royal Bank of Canada and was a director and Chairman of Southam Inc. Mr. Cliff is a Trustee and Chairman Emeritus of the Vancouver Police Foundation; a Trustee of the VGH and UBC Hospital Foundation and the Chairman of the Vancouver Symphony Foundation.

Mr. Cliff received his Commerce Degree from the University of British Columbia and qualified as a Chartered Accountant in 1954 and was elected a Fellow of the Institute of Chartered Accountants of British Columbia in 1994.

No. of Fund Units Held

2009

46,826



**Joe Nemeth**, of Langley, British Columbia, Canada is nominated for appointment to the Board of the General Partner on April 27, 2010. Mr. Nemeth will be the President and Chief Executive Officer of the General Partner on Mr. Richards' retirement.

Prior to this appointment, he held the position of Vice President, Sales and Marketing of the General Partner and from January 2003 until he joined the General Partner, he held the position of Vice President, Pulp & Paper Marketing of Canfor.

Prior to joining Canfor, Mr. Nemeth spent 14 years with Fletcher Challenge Canada (now Catalyst Paper Corporation) with his last two positions being Paper Mill Manager at Elk Falls and Vice-President, North American Newsprint Sales.

Mr. Nemeth has a Master of Business Administration degree from the University of Western Ontario and a Bachelor of Forestry degree from the University of British Columbia.

No. of Fund Units Held

2009

59,985

## EXECUTIVE COMPENSATION

### GENERAL

The Fund does not conduct any active business and the General Partner is responsible for the management of the business. As a result, the Fund does not function through a committee structure. Compensation issues are addressed through the committee structure of the General Partner which includes a Compensation Committee of its Board of Directors.

### COMPOSITION OF THE COMPENSATION COMMITTEE

The Board of Directors of the General Partner has final authority to approve the recommendations of the Compensation Committee regarding the compensation of the executives of the General Partner and the Partnership. The following independent directors of the General Partner were members of the Compensation Committee at December 31, 2009: P.J.G. Bentley, S. Bracken-Horrocks, C. Jago and William W. Stinson. For further information on the role and responsibility of the Compensation Committee see "Board Committees – Compensation Committee" herein.

### Compensation Discussion and Analysis

#### Overview of Compensation Policies, Programs and Objectives

The executive compensation policies of the General Partner relating to the main elements of compensation awarded to, earned by or paid to the Named Executive Officers (as defined under the section entitled "Summary Compensation Table" below) are designed to attract and retain high calibre executives who will successfully lead the organization so as to ensure a satisfactory return to Unitholders, financial soundness and competitiveness within its business sectors. The compensation package for executives includes base salary, short-term incentives and long-term incentives. The incentive programs are designed to provide the potential for top quartile compensation when compared to similar positions in the Canadian forest products sector and to a broader industry comparison, when performance warrants.

The Compensation Committee engages the services of an independent consulting firm, Hay Group, to provide advice and counsel on executive compensation matters, including base salary and incentive bonus programs as described further below.

## Elements of Compensation

### Base Salaries

Base salaries and salary ranges for the Named Executive Officers are established using market-competitive information provided by the Hay Group, the independent consulting firm retained by the Compensation Committee for this purpose. Salaries are reviewed annually. The mid-point for salary ranges is set at the median of the market place. The Compensation Committee has sole responsibility for recommending for approval by the Board of Directors the compensation of the CEO. The CEO's compensation is compared to top executive positions in the Canadian pulp and paper industry and to a broader industry group.

### Annual (Short-Term) Incentive Plan

The General Partner has a short-term incentive plan known as the Canfor Pulp Salaried Incentive Plan ("**PSIP**"). The PSIP applies to the Named Executive Officers (including the CEO) and all other salaried employees of the Partnership and has three components: Partnership performance, Business Unit performance and Individual performance. The PSIP program and annual goals and objectives are designed to enhance annual operating performance and financial results.

Partnership performance is measured by return on net assets ("**RONA**") for the Partnership. Target RONA performance levels are established annually taking into account actual historical RONA levels and projected RONA levels for the year. An annual minimum threshold RONA must be achieved for any payout under the PSIP to be made. Business Unit performance is measured against specific safety, environmental, productivity and operating costs, and organization goals. Individual performance is measured against agreed upon goals and objectives. These goals and objectives may relate to health and safety, and specific individual projects or programs. Partnership RONA levels for the year, Business Unit specific operational and organization goals, and Individual performance goals and objectives are established as part of the annual planning process. Goals are based on improvements over historical results, adjusted to reflect projected production input costs and markets for the Partnership's products. For Named Executive Officers, Business Unit performance is measured in relation to the performance of competitors in the pulp and paper industry on an EBITDA/tonne basis. For this purpose, the industry competitors consist of SFK Income Fund, Mercer International Inc., and the pulp and paper segments of Tembec Inc., West Fraser Timber Co. Ltd. and Catalyst Paper Corporation. Award opportunity will vary by employee responsibility level within the Partnership. Market competitive award PSIP targets as a percentage of base salary are 55% for the CEO and 40% for the other Named Executive Officers and range from 10% to 30% for all other salaried employees. Higher payout levels are possible with superior performance. In 2009, the General Partner paid to the Named Executive Officers a total of \$413,067 in PSIP awards, representing 74% of target for the year.

Target awards and payouts for the Named Executive Officers for 2009 by component are summarized as follows:

	2009 Average Award as % of Target	% of Total Award
Partnership Component	0%	0%
Business Unit Component <sup>1</sup>	200%	54%
Individual Component	115%	46%
Total	74%	100%

1. For 2009, the Partnership performance, as measured on an EBITDA/tonne basis, was greater than 120% of the average of the industry competitor performance resulting in an award of 200% for the Business Unit Component.

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

The General Partner has an LTIP which applies to designated senior management including the CEO and the other Named Executive Officers. The awards are based on a multi-year comparison of the Fund's Total Shareholder Return ("**TSR**") to the Scotia Capital Business Trust Index (the "**Index**") and the Partnership's performance relative to a peer group in the pulp and paper sector, as measured by EBITDA/tonne. Annual target award (the "**Target**") under the LTIP is 125% of base salary for the CEO and 100% of base salary for the other Named Executive Officers. The annual target awards for other designated participants in the LTIP range from 20% to 40% of base salary. For all LTIP participants, including the CEO and other Named Executives, the maximum LTIP award in any period is 200% of target. Annual awards for the peer group component are determined at 50%, 100% or 200% of target depending on annual unitholder distributions declared in relation to prior years, and for the TSR component at zero to 200% of target if the multi-year total shareholder return is more than 3% below the Index or more the 3% above the Index, respectively.

LTIP payouts are made in cash and participants are expected to use 50% of the after tax amount for purchase of Fund Units, to a maximum cumulative investment of 200% of salary for the CEO and 100% of salary for the other participants, including the other Named Executive Officers.

For 2009, the General Partner paid to the Named Executive Officers a total of \$931,723 in LTIP awards, representing a total of 70% of Target for the year. Target awards and payouts for the Named Executive Officers for 2009 by component are summarized as follows:

**LTIP Award Weighting**

**2009 Award as % of Target**

Total Shareholder Return <sup>1</sup>	30%	0%
Peer Group Comparison <sup>2</sup>	70%	100%

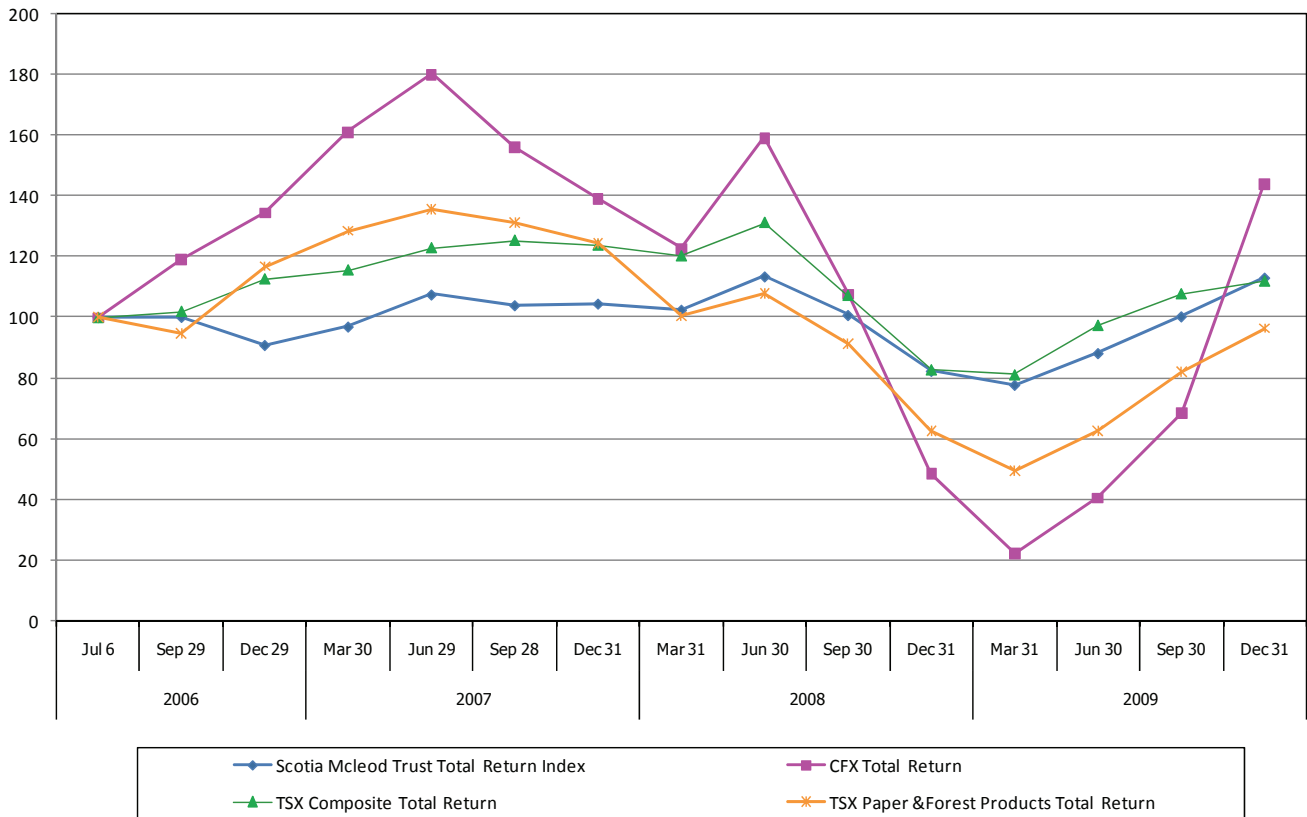
1. The Fund's TSR has underperformed the Scotia Capital Business Trust Index by more than 3% for the measurement period from December 31, 2006 to December 31, 2009 and accordingly, no award was made in this criteria for 2009.
2. The Partnership achieved a number 1 ranking on an EBITDA/tonne basis when compared to the peer group, consisting of SFK Income Fund, Mercer International Inc., and the pulp and paper segments of Tembec Inc., West Fraser Timber Co. Ltd., and Catalyst Paper Corporation, resulting in an award of 100% for the peer group component.

**PERFORMANCE GRAPH**

The following graph compares the total cumulative return for \$100 invested in the Fund Units made on July 6, 2006, the date of the commencement of trading the Fund Units, with the cumulative total shareholder return of the S&P/TSX Composite Index, S&P/TSX Composite Index - Paper & Forest Products (Industry) and the Scotia Capital Business Trust Index for the period beginning on July 6, 2006 and ended December 31, 2009.

**Stock Performance Graph**

**Cumulative Total Return**



	<b>Scotia McLeod Trust Total Return Index</b>	<b>CFX.UN Total Return</b>	<b>TSX Composite Total Return</b>	<b>TSX Paper &amp; Forest Products Total Return</b>
Jul 6/06	100	100	100	100
Sep 29/06	100	119	102	95
Dec 29/06	91	135	113	117
Mar 30/07	97	161	116	129
Jun 29/07	108	180	123	136
Sep 28/07	104	156	125	131
Dec 31/07	104	139	124	124
Mar 31/08	102	123	120	100
Jun 30/08	114	159	131	108
Sep 30/08	101	108	107	91
Dec 31/08	82	49	83	63
Mar 31/09	77	22	81	50
Jun 30/09	88	40	97	63
Sep 30/09	100	69	108	82
Dec 31/09	113	144	112	96

#### **CHANGE OF CONTROL AGREEMENTS**

The General Partner has entered into Change of Control Agreements with certain Named Executive Officers, as described below. The agreements provide that if, during a period commencing on a change of control and ending 18 months later, the Named Executive Officer's employment is terminated or he is constructively dismissed, the Named Executive Officer will receive a lump sum severance payment consisting of 24 months base salary, an amount equal to the then target level of short-term and long-term incentive amounts for a two year period, and the value of pension benefits and All Other Compensation as reported on the following Summary Compensation Table for a two year period. In exchange for compensation under the agreements, the Named Executive Officers are precluded from employment or providing other services to a business anywhere in British Columbia or Alberta in the pulp and paper industry for a period of 12 months from termination. Assuming a change in control and termination of employment for each Named Executive Officer occurred on December 31, 2009, the following table represents the amounts that would be payable to the Named Executive Officers under these agreements:

<b>Name</b>	<b>Principal Position</b>	<b>Lump Sum Payment \$</b>
Paul A. Richards	President & Chief Executive Officer	\$2,952,138
Terry D. Hodgins	Chief Financial Officer & Secretary	\$1,445,116
Joe Nemeth	Vice President, Sales and Marketing	\$1,378,180
Brett R. Robinson	Vice President, Operations	\$1,318,812

For these purposes, a "change in control" is defined as (i) any reduction by Canfor in its holding of Fund Units below 30% of the outstanding Units, (ii) any person other than Canfor having the right to appoint a majority of the Directors of the General Partner or (iii) a change or series of changes in the Trustees of the Fund resulting from the solicitation of proxies by any person other than management of the General Partner, resulting in the Trustees of the Fund, immediately prior to such change or series of changes, ceasing to constitute a majority of the Trustees of the Fund.

#### **SUMMARY COMPENSATION TABLE**

Under applicable securities legislation, the Fund is required to disclose certain financial and other information relating to the compensation of the Chief Executive Officer of the Fund, Chief Financial Officer of the Fund and the three most highly compensated executive officers of the Fund other than the Chief Executive Officer and the Chief Financial Officer. The Fund does not have any executive officers and does not carry on an active business. The executive officers of the General Partner, which include the CEO and CFO, are responsible for the management of the business.

The following Summary Compensation Table sets forth the compensation of the CEO and the CFO and for the most highly compensated executive officers of the General Partner, other than the CEO and CFO who were serving as executive officers at December 31, 2009 (the CEO, CFO and such executive officers are referred to collectively as the "**Named Executive Officers**").

## Summary Compensation Table

The following table reflects compensation paid during each of the three complete fiscal years since establishing the Fund and Partnership.

Name and Principal Position	Year	Salary (\$)	Non-equity Incentive Plan Compensation (\$)		Pension Value (\$)	All Other Compensation <sup>2</sup> (\$)	Total Compensation (\$)
			Annual Incentive Plans <sup>(1)</sup>	Long-term Incentive Plans <sup>1</sup>			
Paul A. Richards President & Chief Executive Officer	2009	465,620	191,687	401,249	104,000	32,573	1,195,129
	2008	441,302	262,170	391,438	100,000	45,123	1,240,033
	2007	437,612	337,000	767,550	91,300	27,795	1,661,257
Terry D. Hodgins <sup>3</sup> Chief Financial Officer & Secretary	2009	276,013	79,380	190,288	42,712	37,521	625,914
	2008	267,121	108,260	185,640	28,828	33,403	623,252
	2007	98,623	8,266	--	--	2,000	108,889
Joe Nemeth Vice President, Sales & Marketing	2009	254,063	74,570	175,154	40,000	34,662	578,449
	2008	240,794	99,650	170,877	33,000	29,838	574,159
	2007	236,068	130,860	335,048	32,800	26,614	761,390
Brett R. Robinson <sup>4</sup> Vice President, Operations	2009	239,438	67,430	165,032	171,476	17,341	660,717
	2008	189,029	69,370	88,550	45,070	18,039	410,058
Thomas Sitar <sup>5</sup> Chief Financial Officer & Secretary	2007	213,231	111,550	285,600	45,200	20,725	676,306

1. These numbers reflect amounts in respect of the reporting year paid in the subsequent year under the General Partner's PSIP and LTIP (See "Executive Compensation" herein for a description of the plans).
2. For all Named Executive Officers these amounts may include automobile expenses, amounts contributed toward the General Partner's Employee Unit Purchase Plan, flexible pension allocations, medical and dental benefits and other expenses. Specifically, amounts exceeding 25% of the total value of All Other Compensation for Mr. Richards includes \$17,520 for car allowance; for Mr. Hodgins includes \$15,634 for car allowance and \$14,365 for club dues; for Mr. Nemeth includes \$21,132 for car allowance; and for Mr. Robinson \$10,971 for car allowance.
3. Mr. Hodgins was appointed Chief Financial Officer and Secretary on February 19, 2008. From October 24, 2007 to February 18, 2008, Mr. Hodgins was the Interim Chief Financial Officer and Secretary.
4. Mr. Robinson was appointed Vice President, Operations effective October 1, 2008.
5. Mr. Sitar resigned his position from the General Partner on October 23, 2007.

## PENSION PLAN BENEFITS

### Defined Benefit Pension Plans

The Named Executive Officers of the General Partner who are members of the Partnership's defined benefit pension plans, are provided retirement benefits determined primarily by: (i) highest average pensionable earnings, which consists of regular salary and 50% of annual incentive plan (PSIP) awards in a highest period of three consecutive years during the final ten years of employment; and (ii) years of credited service.

The Partnership accrued pension liability under its defined benefit pension plan is calculated following the method prescribed by the Canadian Institute of Chartered Accountants and is based on management's best estimate of future events that affect pension liabilities, including assumptions about future salary adjustments and bonuses. The actuarial assumptions used in the determination of the accrued liability are disclosed in Note 7 to the Partnership's audited financial statements dated December 31, 2009. There were no amendments to benefit terms during the 2009 year. Compensatory changes to the accrued obligation include service cost plus differences between actual and estimated earnings. Non-compensatory changes include the effects of changes in actuarial assumptions and interest on the accrued obligations at start of the year. Information on annual benefits payable and the accrued pension obligation for those Named Executive Officers who are members of the defined benefit plan is as follows:

Name	Number of Years Credited Service (#)	Annual Benefits Payable (\$)		Accrued Obligation at Start of Year (\$)	Compensatory Change (\$)	Non-Compensatory Change (\$)	Accrued Obligation at Year End (\$)
		At Year End	At Age 65				
Paul A. Richards President & Chief Executive Officer	4.65	47,000	92,500	331,000	104,000	48,000	483,000
Joe Nemeth Vice President, Sales & Marketing	6.91	38,700	146,000	199,000	40,000	35,000	274,000
Brett R. Robinson <sup>1</sup> Vice President, Operations	14.35	63,300	63,300	308,000	127,000	69,000	504,000

1. On January 1, 2006, Mr. Robinson became a member of the defined contribution plan and concurrently, became a deferred member and ceased to accrue credited service under the defined benefit plan.

### Defined Contribution Plan

The Partnership provides defined contribution pension benefits to Named Executive Officers who are not active members in the defined benefit pension plan. The Partnership contributes to a maximum amount of 12% of pensionable earnings, which consists of regular salary and 50% of annual incentive plan (PSIP) awards.

Compensatory amounts consist of the Partnership contribution for the year. Non-compensatory amounts include the Named Executive Officer contributions and investment earnings or losses for the year. Information on the Partnership contributions and accumulated value for those Named Executive Officers who are members of the defined contribution plan is as follows:

Name	Accumulated Value at Start of Year (\$)	Compensatory (\$)	Non-Compensatory (\$)	Accumulated Value at Year End (\$)
Terry D. Hodgins Chief Financial Officer & Secretary	32,713	42,712	19,367	94,792
Brett R. Robinson Vice President, Operations	49,089	44,476	27,570	121,135

### COMPENSATION OF TRUSTEES AND THE DIRECTORS OF THE GENERAL PARTNER

For the twelve month period ended December 31, 2009, each non-executive director of the General Partner (or Fund Trustee, in the event that such Fund Trustee is not a director) who is neither employed by the Partnership nor by Canfor was paid an annual retainer of \$24,000 and was also paid an attendance fee of \$1,200 for each day of a scheduled meeting and an attendance fee of \$1,600 for each day of a non-scheduled meeting of the Board of Directors or any Committee of the Board. Those Directors or Trustees who are not officers of the General Partner or the Fund and serve on a Committee were also paid a pro-rated retainer of \$4,000 for the most recently completed financial year. In addition, the Chairman of each Committee was paid an annual fee of \$4,000. The Chairman of the Board of the General Partner was paid a quarterly fee of \$10,000 for serving as Chairman. The annual retainers and directors fees are as follows:

	2009	Jan to Sept 2008	Oct to Dec 2008
Annual Board Chair Retainer	\$40,000	\$50,000	\$50,000
Annual Board Retainer	\$24,000	\$20,000	\$30,000
Annual Committee Chair Retainer	\$4,000	\$3,000	\$5,000
Annual Committee Retainer	\$4,000	\$3,000	\$5,000
Board/Committee Meeting Fees for scheduled meeting	\$1,200	\$1,000	\$1,500
Board/Committee Meeting Fees for non-scheduled meeting	\$1,600	\$2,000	\$2,000

## Director Compensation

	<b>Fees Earned (\$)<sup>1</sup></b>
Jago, Charles J.	\$111,600
Bentley, Peter J.G.	\$59,600
Bracken-Horrocks, Stan E.	\$55,600
Campbell, Donald W.	\$62,000
Lusztig, Peter A.	\$54,400
Stinson, William W.	\$66,000

1. There was no other directors compensation paid or payable or otherwise provided, directly or indirectly to directors in any capacity, except for compensation paid to Mr. Richards in his capacity as CEO and reported under Executive Compensation.

## Indebtedness of Directors, Executive Officers and Senior Officers

There are no material loans outstanding as at March 16, 2010 payable by officers, directors, employees and former directors, officers and employees of the General Partner, the Partnership or any of their respective Subsidiaries to the General Partner, the Partnership or any of their respective Subsidiaries.

## CORPORATE GOVERNANCE

### INTRODUCTION

On June 30, 2005, NI 58-101 came into effect requiring public companies to disclose annually their corporate governance practices, including the constitution and independence of their board of directors, their mandates, roles, responsibilities and membership, and various items dealing with effective corporate governance. The Board of Trustees of the Fund and the Board of Directors of the General Partner have reviewed the governance practices of the Fund and General Partner and conclude that except as noted below, they comply with NI 58-101.

The Fund is a trust which distributes earnings from its indirect holdings in the Partnership to its Unitholders. The Fund does not conduct any active business and the role of the Trustees is to act primarily on behalf of the Fund and to manage the limited affairs of the Fund. The General Partner is the general partner of the Partnership and therefore responsible for the management of the business of the Partnership. All of the Trustees of the Fund are independent as defined in NI 58-101 and each Trustee is a member of the Board of Directors of the General Partner.

Due to the passive nature of the Fund, the Fund does not have independent active management nor do the Trustees exercise supervisory functions over management of the General Partner or the Partnership. By reason of the foregoing and the number of Trustees, it has not been necessary for the Fund to function through a committee structure. The Trustees collectively discharge the functions that would otherwise be discharged by an executive committee or a governance committee and all the Trustees serve on the Audit Committee of the Fund and of the General Partner.

As a result of the structure of the Fund, NI 58-101 is best addressed by the Trustees of the Fund together with the Board of the General Partner. The following disclosure describes the General Partner's current corporate governance practices.

### Board Responsibilities

Under a set of Governance Principles and Code of Conduct adopted by the Board of Directors of the General Partner, the Board of Directors has explicitly acknowledged its responsibility for the stewardship of the General Partner, including the supervision of the management of its affairs and business. The basic objective of the Board of Directors is to ensure that unitholder value is preserved and maximized over the longer term and that the highest ethical standards are maintained throughout the General Partner's operations. In pursuing this objective, consideration is given to the interests of other stakeholders and to balancing gain against risk in order to ensure the financial viability of the business of the General Partner. Under the Governance Principles, the Board of Directors (directly or through its Committees) has expressly assumed responsibility in the areas listed below, among others.

#### *Culture of Integrity*

The Board of Directors has assumed responsibility for satisfying itself, to the extent feasible, as to the integrity of the CEO and the other executive officers of the General Partner and that those officers work to create a culture of integrity throughout the General Partner. The Governance Principles and Code of Conduct are designed to assist the Board of Directors in defining and maintaining appropriate standards of integrity throughout the organization (see also "Ethical Business Conduct" below).

#### *Strategic Planning*

The Board of Directors participates in the strategic planning process by reviewing, providing comments and approving management's strategic plan. The Board of Directors sets aside at least one meeting per year to review and comment on management's strategic



plan. This allows the Board of Directors to gain a better appreciation of management's strategic planning priorities. Updates are provided to the Board of Directors throughout the year. The Board of Directors held a full day strategic planning session in 2009.

#### *Risk Management*

Risk Management is a primary responsibility of the Chief Financial Officer of the General Partner and includes the identification and management of the principal risks of the General Partner's business. Regular reports on risk issues are made to the Audit Committee. In its deliberations, the Board of Directors considers the principal risks of the General Partner's business and satisfies itself that management has systems in place to manage those risks. The Board of Directors has adopted a risk management controls policy which sets out the responsibilities, reporting and counterparty credit requirements associated with all risk management activity and an energy risk management policy which sets out principles for managing energy price exposure risk.

#### *Succession*

The Compensation Committee reviews succession planning for the CEO and other key senior executives as well as personal development plans for senior management. The Compensation Committee is provided with regular updates on the succession and development programs from the CEO and reports to the Board of Directors on succession planning matters.

#### *Disclosure Control*

The General Partner and the Fund have adopted a Corporate Disclosure Policy covering timely dissemination of material information. The policy establishes guidelines relating to how information is disclosed, responsibilities of officers, avoidance of selective disclosure and blackout periods. The General Partner and the Fund also communicate through the dissemination of continuous disclosure materials such as annual and quarterly reports, news releases and the annual information form. The General Partner maintains and regularly updates its website and conducts briefing sessions and group meetings.

#### *Integrity of Internal and Disclosure Controls*

From time to time the Board of Directors directly and through its Audit Committee reviews and assesses the adequacy and integrity of the General Partner's internal controls and management and information systems, as well as its and the Fund's disclosure controls and procedures to ensure that information for public disclosure is properly recorded, processed, summarized and reported to the Board of Directors and the Audit Committee. In addition, through the use of Canfor's internal auditors, the Board of Directors monitors and assesses internal control mechanisms and functions. The General Partner has established a Disclosure Committee comprised of senior managers of the General Partner. The Disclosure Committee reviews and assesses the financial disclosure of the General Partner and the internal controls and procedures for ensuring that accurate information is being processed. The Disclosure Committee meets with the CEO and CFO to discuss its findings. The Audit Committee regularly meets with the internal auditor, external auditors and management to discuss the effectiveness of such controls.

## **THE BOARD OF DIRECTORS OF THE GENERAL PARTNER**

### **Independence**

The Board of Directors of the General Partner is currently composed of 8 directors, 6 of whom are independent directors as defined in NI 58-101. The three Trustees of the Fund are independent directors as defined in NI 58-101. One of the present directors, Paul Richards, is a member of senior management of the General Partner and therefore is not considered to be independent for this purpose. Also, Mr. Shepard is a member of the senior management of Canfor and is also not considered independent for this purpose. No independent director has entered into any contracts with the General Partner or the Fund, received remuneration from the General Partner or the Fund in excess of directors compensation or worked for the General Partner or the Fund in the last 5 years. The Board of Directors has provided a means whereby individual directors may engage outside advisors at the expense of the General Partner in appropriate circumstances. In 2009, no advisors were engaged on behalf of individual directors of the General Partner. Of the 3 individuals proposed as nominees for election as Trustees of the Fund at the Meeting, all are considered to be independent as defined in NI 58-101.

### **Other Directorships**

The names of other reporting issuers in respect of which each Trustee and proposed Trustee presently serves as a director are set out under the "Election of Trustees" section of this Information Circular. The names of other reporting issuers in respect of which each Director of the General Partner presently serves as a director are also set out therein.

### **Board Meetings**

The independent directors of the General Partner, as part of each board meeting, hold in-camera sessions without the presence of Mr. Richards (as a non-independent management director) and other members of management to discuss issues relating to management and governance of the General Partner generally. The Board of Directors held 7 such meetings in 2009. The Chairman of the Corporate Governance Committee meets annually with the CEO and Chairman of the Board of Directors to discuss the relationship between management and the Board of Directors and reports the results of these discussions to the Board of Directors.

## **Attendance Record**

The attendance record of each director of the General Partner at Board meetings and committee meetings is disclosed under the section of this Information Circular entitled "Corporate Governance – Board/Committee Assessments".

## **Chairman**

Dr. Charles Jago is the Chairman of the Board of Directors of the General Partner. As discussed under "Independence" above, Dr. Jago is considered to be an independent director as defined in NI 58-101. As Chairman, Dr. Jago is responsible for ensuring the effective functioning of the Board of Directors, independent of management, and in a manner consistent with the Governance Principles and Code of Conduct, as described under "Code of Conduct" below.

## **BOARD MANDATE**

The Board of Directors approved a written Board Mandate, which defines the Board of Directors' roles and responsibilities. The Board Mandate has been filed on SEDAR at [www.sedar.com](http://www.sedar.com) and on the General Partner's website at [www.canforpulp.com](http://www.canforpulp.com).

## **POSITION DESCRIPTIONS**

The Board of Directors has adopted position descriptions for the Chair of the Board, the Chair of each Board Committee and for the CEO, each of which is posted on the General Partner's web site at [www.canforpulp.com](http://www.canforpulp.com).

## **ORIENTATION AND CONTINUING EDUCATION**

Programs for the orientation for new Directors and the ongoing education of existing Directors are the responsibility of the Governance Committee and the Chairman of the Board oversees the program. New Directors are provided with a Directors Orientation Manual containing details of the General Partner's organizational structure, terms of reference for the Board of Directors and Committees, the Fund's annual information form and other relevant materials. Visits to various operations sites of the General Partner are organized for such members by the Chairman of the Board. The Board of Directors receives updates and other information from management relating to changes in law or other matters relevance to the Board of Directors.

## **ETHICAL BUSINESS CONDUCT**

### **Code of Conduct**

As noted above, the Board of Directors has adopted a set of Governance Principles and a Code of Conduct. The Governance Principles deal with issues such as the role of the Board of Directors and management, functions of the Board of Directors, qualifications of Directors, independence of Directors, ethics and conflicts of interest. The Code of Conduct defines the standards and values which the General Partner expects all employees to follow in their dealings with stakeholders and is consistent with the General Partner's corporate values of integrity, trust, openness and respect for people. The Board Governance Principles and Code of Conduct have been filed on SEDAR at [www.sedar.com](http://www.sedar.com) and on the General Partner's website at [www.canforpulp.com](http://www.canforpulp.com) and a copy may be obtained from the Secretary of the General Partner.

The CEO of the General Partner reports to the Governance Committee on his efforts to monitor and promote a culture of integrity consistent with the Code of Conduct which includes meetings and discussions with senior managers and other stakeholders. A further description of the roles and responsibilities of the Governance Committee is set out under the section "Board Committees" below.

On an annual basis, each Director of the General Partner is required to disclose and the Board of Directors reviews all of the Directors' personal or business relationships with the General Partner in order to allow the Board of Directors to determine whether such relationships could reasonably be expected to interfere with the Director's independent judgment. If a conflict of interest arises between the Director and the General Partner, that Director would not participate in the relevant decision.

## **NOMINATION OF DIRECTORS**

The responsibility for the identification of new candidates for Board of Directors nomination resides with the General Partner's Governance Committee.

The Governance Committee canvasses members of the Board of Directors for their suggestions regarding potential appointees to the Board of Directors and identifies and recommends annually to the Board of Directors, for its consideration, a short list of proposed nominees for election to the Board of Directors. In considering the candidates on the list, the Committee considers individual backgrounds, skills and expertise, geographic representation and the requirements of the Board of Directors in terms of skills and mix.

The Governance Committee is composed entirely of independent directors. A further description of the responsibility, power and operations of this Committee is set out under the Section entitled "Board Committees" below.

## **COMPENSATION**

The process for the determination of the compensation of the General Partner's directors and officers is overseen by the General Partner's Compensation Committee. The Compensation Committee annually reviews directors' and officers' compensation, with the assistance of its outside independent consultants, to amend compensation as required to reflect adequate compensation aligned with Unitholder interests. As described under the "Executive Compensation" section of this Information Circular, the Compensation Committee engaged the services of an independent consulting firm to assist the Compensation Committee in determining the General Partner's compensation levels for 2009.

The Compensation Committee is composed entirely of independent directors. A description of the responsibilities, powers and operations of the General Partner's Compensation Committee is set out under the section of this Information Circular entitled "Board Committees" below.

## **BOARD COMMITTEES**

Set out below is a description of the three Committees of the Board of Directors, their mandates and their activities. All Board Committees are composed entirely of independent directors.

### **Audit Committee**

The overall purpose of the Audit Committee is to oversee the Fund and the General Partner's financial reporting process and to review with the Fund and General Partner's external auditors the audited financial statements that are to be submitted to the Fund's annual general meeting. The Audit Committee also reviews with management and the external auditors of the Fund and General Partner the impact of significant risks, potential liabilities and uncertainties which may affect the Fund and General Partner, any financial statements that are to be included in a prospectus or take-over bid circular of the Fund as required by securities law, as well as certain interim unaudited financial statements and all public disclosure documents containing audited or unaudited earnings information before their release to the public, and reports the results of such reviews and any associated recommendations to the General Partner's Board of Directors. In addition, the Audit Committee makes recommendations to the Board of Directors regarding the appointment of independent auditors, reviews the nature and scope of the annual audit plan presented by the General Partner's external auditors, and reviews with management the risks inherent in the General Partner's business and the management of such risks. The Audit Committee also reviews with both external auditors and with management of the General Partner the adequacy of the internal accounting procedures and systems established by the General Partner and reviews the General Partner's annual financing plan, any proposed financings and the method by which the General Partner measures financial results and performance. The Audit Committee has the authority to conduct any investigation appropriate to fulfilling its responsibilities and may retain special legal, accounting or other experts in the performance of its duties. The Audit Committee has regular in-camera sessions with the external auditors to discuss issues as it deems appropriate and requires management to implement and maintain appropriate internal controls and reviews these controls regularly at committee meetings. The Audit Committee has implemented controls to approve non-audit work performed by the external auditors. The Audit Committee is composed of five independent directors and the Audit Committee of the Fund is composed of three independent Trustees, who also are members of the General Partner's Audit Committee.

For further information regarding the General Partner's Audit Committee, see the section of the AIF entitled "Directors and Officers – Committees of the Board of Directors of the General Partner – Audit Committee", which is incorporated by reference herein and which is available on SEDAR at [www.sedar.com](http://www.sedar.com).

### **Governance Committee**

The principal role and function of the Governance Committee is to ensure that the General Partner, through its Board of Directors, sustains an effective approach to corporate governance. The Governance Committee monitors best practices for corporate governance and reviews practices and terms of reference to ensure the General Partner's compliance with industry standards and applicable laws and regulatory rules and policies. An additional function of the Governance Committee is to review the Board of Directors' overall relationship with management. The Governance Committee is also responsible for identifying and recommending proposed nominees for election to the Board of Directors, recommending the assignment of directors to Committees of the Board and undertaking an annual assessment of the size and effectiveness of the Board of Directors and the Board Committees. The Governance Committee also develops and periodically reviews compliance with the Board Governance Principles and the Code of Conduct and the resolution of potential or real conflicts of interest and also functions as a forum for concerns of individual Directors about matters that are not readily or easily discussed in a full meeting of the Board of Directors. The Governance Committee has the authority to conduct any investigation appropriate to fulfilling its responsibilities and may retain special legal, accounting or other experts in the performance of its duties. The Governance Committee is composed of three independent directors.

### **Compensation Committee**

The overall purpose of the Compensation Committee is to oversee human resources and compensation policies approved by the Board of Directors and to make recommendations to the Board of Directors regarding human resources policies and executive compensation.

The Compensation Committee is responsible for ensuring that the General Partner has in place programs and policies to attract and retain high calibre executives and a process to provide for the orderly succession of management. The Compensation Committee annually assesses the performance of the CEO, recommends for approval by the Board of Directors that officer's compensation and benefits and approves the compensation for all other designated officers of the General Partner, its subsidiaries and affiliates. This is done after considering the recommendations of the CEO, all within the human resources and compensation policies, guidelines and pay and performance systems approved by the Board of Directors. The Compensation Committee also reviews from time-to-time, as and when required, the General Partner's broad policies and programs in relation to pension and other benefits. In addition, the Compensation Committee reviews from time-to-time with the CEO, broad policies on compensation for all employees. It also annually reviews the adequacy and form of the compensation of the Directors and reports and makes recommendations to the Board of Directors accordingly. The Compensation Committee has the authority to conduct any investigation appropriate to fulfilling its responsibilities and may retain special legal, accounting or other experts in the performance of its duties. The Compensation Committee is composed of four independent directors.

### Planning Committee

The focus of the Planning Committee is to consider various mid to long term strategic issues confronting the Partnership including succession, growth, energy and detrusting. The Planning Committee is composed of four independent directors.

### Search Committee

The overall purpose of the Search Committee is to conduct a search for a new president and chief executive officer to replace Paul Richards who will be retiring at the Annual General and Special Meeting on April 27, 2010. The Search Committee is composed of three independent directors.

### BOARD/COMMITTEE ASSESSMENTS

The Governance Committee annually undertakes assessments of the size and effectiveness of not only the Board of Directors' Committees, but also of the Board of Directors as a whole. It also reviews attendance by individual members at Committee and Board meetings. The Board of Directors evaluates its performance by asking each Director to complete a Questionnaire, the contents of which are summarized by an independent person, evaluated by the Chair of the Governance Committee and then discussed at a meeting of the full Board of Directors. The Governance Committee consults with the General Partner's CEO regarding periodic assessments of the relationship between management and the Board and after such reviews advises the Board of Directors of its findings.

### Summary of the General Partner's Board/Committee Meetings Held

For the period from January 1 to December 31, 2009:

Board	7
Audit	5
Compensation	4
Governance	3
Planning	3
Search	4

### Summary of Attendance of Directors

For the period from January 1 to December 31, 2009:

Director/Age	Board Meetings Attended	Committee Meetings Attended <sup>1</sup>
Peter J. G. Bentley (79)	7 of 7	11 of 11
Stan E. Bracken-Horrocks (67)	7 of 7	9 of 9
Donald W. Campbell (69)	7 of 7	11 of 11
Charles J. Jago (66)	7 of 7	14 of 19
Peter A. Lusztig (79)	7 of 7	8 of 8
Paul A. Richards (60)	7 of 7	N/A
James F. Shepard (71) <sup>2</sup>	6 of 7	N/A
William W. Stinson (76)	7 of 7	10 of 11

1. Mr. Richards attends Committee meetings as management and is not a member of any Committee.

2. Mr. Shepard is not an independent director and is not a member of any Committee.

## APPOINTMENT OF AUDITORS

On the recommendation of the Audit Committee of the General Partner, the Trustees have re-appointed PricewaterhouseCoopers LLP, Chartered Accountants, as auditors of the Fund to hold office until the next Annual General Meeting of the Fund. **The persons named in the enclosed proxy will, unless otherwise directed, vote for the confirmation of such reappointment.**

PricewaterhouseCoopers LLP has served as the Fund's and Partnership's auditing firm since July 25, 2006. Fees payable by the Fund and the Partnership for the period ended December 31, 2009 to PricewaterhouseCoopers LLP and its affiliates are \$602,136.

<b>Financial Year Ending</b>	<b>Audit Fees<sup>1</sup></b>	<b>Audit-related Fees</b>	<b>Tax Fees</b>	<b>All other Fees</b>	<b>Total Fees</b>
December 31, 2009	\$429,000	\$126,000	\$25,720	\$21,416	\$602,136
December 31, 2008	\$429,000	\$146,000	\$13,168	\$12,416	\$600,584
December 31, 2007	\$401,000	\$176,707	\$27,265	\$6,806	\$611,778
December 31, 2006	\$401,000	\$72,591	\$53,088	NIL	\$526,679

1. Audit Fees exclude travel costs and other disbursements.

The Audit Committee has the responsibility to approve any non-audit related services provided by the auditors of the Fund exceeding \$30,000 and the Chairman of the Audit Committee has the authority to approve any such services up to a cost of \$30,000.

## OTHER INFORMATION

**These securityholder materials are being sent to both registered and non-registered owners of the securities. If you are a Non-Registered Owner, and the issuer or its agent has sent these materials directly to you, your name and address and information about your holdings of securities, have been obtained in accordance with applicable securities regulatory requirements from the intermediary holding on your behalf.**

**By choosing to send these materials to you directly, the issuer (and not the intermediary holding on your behalf) has assumed responsibility for (i) delivering these materials to you, and (ii) executing your proper voting instructions. Please return your voting instructions as specified in the request for voting instructions.**

**The Fund's Annual Report which contains the audited Financial Statements for the year ended December 31, 2009 and Management's Discussion and Analysis of Financial Condition and Results of Operations, which contain financial information relating to the Fund, accompany this Information Circular. An additional copy of those documents, this Information Circular and any interim financial statements filed subsequent to the annual audited Financial Statements may be obtained from the Secretary of the General Partner and may be accessed on the Fund's website [www.canforpulp.com](http://www.canforpulp.com). Additional information relating to the Fund is available on SEDAR at [www.sedar.com](http://www.sedar.com).**

**APPROVAL OF TRUSTEES**

The contents and the sending of this Information Circular to Unitholders of the Fund have been approved by the Trustees of the Fund.

Dated at the City of Vancouver, in the Province of British Columbia, this 16th day of March, 2010.

**BY ORDER OF THE BOARD OF TRUSTEES  
OF CANFOR PULP INCOME FUND**

*"Charles J. Jago"*  
Charles J. Jago, Trustee

*"Stan E. Bracken-Horrocks"*  
Stan E. Bracken-Horrocks, Trustee

## CONSENT OF RAYMOND JAMES

To: The Board of Trustees of Canfor Pulp Income Fund (the "**Board of Trustees**").

We refer to the fairness opinion dated March 12, 2010 (the "**Fairness Opinion**"), which we prepared for the Board of Trustees for the Arrangement (as defined in the Management Information Circular dated March 16, 2010). We consent to the inclusion of the Fairness Opinion, and all references thereto, in the Management Information Circular dated March 16, 2010. In providing such consent, we do not intend that any person other than the Board of Trustees rely on such opinion.

Yours very truly,

Raymond James Ltd.

By: "*R Rennison*"  
Name: Rebecca Rennison  
Title: Vice President

Vancouver, British Columbia  
March 16, 2010



## **AUDITORS' CONSENT**

March 16, 2010

We have read the Notice of Annual General and Special Meeting of Unitholders to be held on April 27, 2010 and Information Circular with respect to a Plan of Arrangement involving Canfor Pulp Products Inc., Canfor Pulp Income Fund and Canfor Pulp Income Fund Unitholders dated March 16, 2010 (the "Circular"). We have complied with Canadian generally accepted standards for an auditor's involvement with offering documents.

We consent to the incorporation by reference in the above-mentioned Circular of our report to the Unitholders of Canfor Pulp Income Fund (the "Fund") on the consolidated balance sheets of the Fund as at December 31, 2009 and 2008 and the consolidated statements of income, comprehensive income and accumulated earnings and distributions, and consolidated statements of cash flows for each of the years then ended. Our report is dated February 5, 2010.

We also consent to the use in the above-mentioned Circular of our report to the Board of Directors of Canfor Pulp Products Inc. on the balance sheet of Canfor Pulp Products Inc. as at March 16, 2010. Our report is dated March 16, 2010.

(signed) "PricewaterhouseCoopers LLP"

Chartered Accountants  
Vancouver, BC

**APPENDIX "A"**  
**ARRANGEMENT RESOLUTION**

"BE IT RESOLVED THAT:

1. the arrangement ("**Arrangement**") under Section 288 of the *Business Corporations Act* (British Columbia) substantially as set forth in the Plan of Arrangement (the "**Plan of Arrangement**") attached as Schedule A to Appendix "C" to the Information Circular of Canfor Pulp Income Fund (the "**Fund**") dated March 16, 2010 (the "**Information Circular**") and all transactions contemplated thereby, be and are hereby authorized and approved;
2. the arrangement agreement ("**Arrangement Agreement**") dated March 15, 2010 among Canfor Pulp Products Inc ("**Newco**") and the Fund, a copy of which is attached as Appendix "C" to the Information Circular, together with such amendments or variations thereto made in accordance with the terms of the Arrangement Agreement as may be approved by the persons referred to in paragraph 4 hereof, such approval to be evidenced conclusively by the execution and delivery of any such amendments or variations, is hereby confirmed, ratified and approved;
3. the amendments to the Fund's declaration of trust made as of April 19, 2006, as amended, as necessary to facilitate the Arrangement and also as provided in the Arrangement Agreement, be and they are hereby authorized and approved;
4. notwithstanding that this resolution has been duly passed and/or the Arrangement has received the approval of the Supreme Court of British Columbia, the Board of Trustees of the Fund may, without further notice to or approval of the holders of units of the Fund, subject to the terms of the Arrangement, amend or terminate the Arrangement Agreement or the Plan of Arrangement, with the prior written consent of Newco, or revoke this resolution at any time prior to the Plan of Arrangement becoming effective; and
5. any director or officer of the Fund or Canfor Pulp Holding Inc. is hereby authorized, for and on behalf of the Fund, to execute, with or without the corporate seal and, if appropriate, deliver any and all other documents and instruments and do any and all other things as in the opinion of such director or officer may be necessary or advisable to implement this resolution and the matters authorized hereby, such determination to be conclusively evidenced by the execution and delivery of any such document or instrument, and the taking of any such action."

**APPENDIX "B"**  
**NOTICE OF PETITION AND INTERIM ORDER**

Please see attached.

IN THE SUPREME COURT OF BRITISH COLUMBIA

IN THE MATTER OF SECTION 291 OF THE *BUSINESS CORPORATIONS ACT*,  
S.B.C. 2002, CHAPTER 57, AS AMENDED

AND IN THE MATTER OF A PROPOSED ARRANGEMENT INVOLVING  
CANFOR PULP PRODUCTS INC.

CANFOR PULP PRODUCTS INC. and CANFOR PULP INCOME FUND

PETITIONERS

**NOTICE OF PETITION**

TO: The Unitholders of Canfor Pulp Income Fund

NOTICE IS HEREBY GIVEN that a Petition has been filed by Canfor Pulp Products Inc. ("Newco") and Canfor Pulp Income Fund (the "Fund") (collectively, the "Petitioners") in the Supreme Court of British Columbia for approval, pursuant to section 291 of the *Business Corporations Act*, S.B.C. 2002 c. 57 and amendments thereto, of an arrangement contemplated in an Arrangement Agreement dated as of March 15, 2010 between Newco and the Fund (the "Arrangement").

NOTICE IS FURTHER GIVEN that by Order of Master Scarth, a master of the Supreme Court of British Columbia, dated March 16, 2010, the Court has given directions by means of an interim order (the "Interim Order") as to the calling of a meeting (the "Meeting") of the registered holders of the outstanding units of the Fund (the "Unitholders") for the purpose of, among other things, considering and voting upon the special resolution to approve the Arrangement.

NOTICE IS FURTHER GIVEN that if the Arrangement is approved at the Meeting, the Petitioners intend to apply to the Supreme Court of British Columbia for a final order approving the Arrangement and declaring it to be fair and reasonable to the Unitholders (the "Final Order"), which application will be heard at the courthouse at 800 Smithe Street, in the City of Vancouver, in the Province of British Columbia on Monday, May 3, 2010 at 9:45 a.m. (Vancouver time) or so soon thereafter as counsel may be heard or at such other date and time as the Court may direct.

NOTICE IS FURTHER GIVEN that, if granted, the Final Order approving the Arrangement will constitute the basis for an exemption from the registration requirements under the *United States Securities Act of 1933*, upon which the parties

will rely for the issuance and exchange of securities in connection with the Arrangement.

IF YOU WISH TO BE HEARD AT THE HEARING OF THE APPLICATION FOR THE FINAL ORDER OR WISH TO BE NOTIFIED OF ANY FURTHER PROCEEDINGS, YOU MUST GIVE NOTICE OF YOUR INTENTION by filing a form entitled "Appearance" together with any evidence or materials which you intend to present to the Court at the Vancouver Registry of the Supreme Court of British Columbia and YOU MUST ALSO DELIVER a copy of the Appearance and any other evidence or materials to the Petitioners' address for delivery, which is set out below, on or before 4:00 p.m. (Vancouver time) on April 29, 2010.

YOU OR YOUR SOLICITOR may file the Appearance. You may obtain a form of Appearance at the Registry. The address of the Registry is 800 Smithe Street, Vancouver, British Columbia, V6Z 2E1.

IF YOU DO NOT FILE AN APPEARANCE AND ATTEND EITHER IN PERSON OR BY COUNSEL at the time of the hearing of the application for the Final Order, the Court may approve the Arrangement, as presented, or may approve it subject to such terms and conditions as the Court deems fit, all without further notice to you. If the Arrangement is approved, it will affect the rights of the Unitholders.

A copy of the Petition and the other documents that were filed in support of the Interim Order and will be filed in support of the Final Order will be furnished to any Unitholder upon request in writing addressed to the solicitors of the Petitioners at their address for delivery set out below.

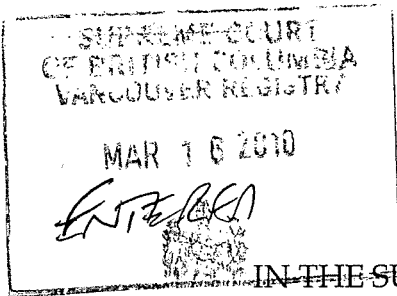
The Petitioners' address for delivery is:

Stikeman Elliott LLP  
Barristers and Solicitors  
1700 - 666 Burrard Street  
Vancouver, BC V6C 2X8  
Attention: Paula J. Price

DATED this 16<sup>th</sup> day of March, 2010.



\_\_\_\_\_  
Solicitor for the Petitioners



S-101846

No.  
VANCOUVER REGISTRY

IN THE SUPREME COURT OF BRITISH COLUMBIA

IN THE MATTER OF SECTION 291 OF THE BUSINESS CORPORATIONS ACT,  
S.B.C. 2002, CHAPTER 57, AS AMENDED

AND IN THE MATTER OF A PROPOSED ARRANGEMENT INVOLVING  
CANFOR PULP PRODUCTS INC.

CANFOR PULP PRODUCTS INC. and CANFOR PULP INCOME FUND

PETITIONERS

**INTERIM ORDER**

	)	)	
	)	)	
BEFORE	)	)	Tuesday, the
	)	)	16 <sup>th</sup> day of
	)	)	March 2010
	)	)	
	)	)	

MASTER SCARTH

THE APPLICATION of Canfor Pulp Products Inc. ("Newco") and Canfor Pulp Income Fund (the "Fund") (collectively, the "Petitioners"), for an Interim Order under section 291 of the Business Corporations Act, S.B.C. 2002, c. 57, as amended (the "BCBCA") in connection with an arrangement under section 288 of the BCBCA, coming on for hearing on the 16th day of March, 2010 at the Courthouse at 800 Smithe Street, Vancouver, British Columbia and on hearing Paula J. Price, counsel for the Petitioners, and UPON READING the Petition, the Notice of Motion and the Affidavit of Terry D. Hodgins, sworn on March 15, 2010 (the "Hodgins Affidavit"),

**THIS COURT ORDERS THAT:**

**DEFINITIONS**

- As used in this Order, unless otherwise defined, terms beginning with capital letters shall have the respective meanings set out in the Notice of Annual General and Special Meeting of Unitholders (the "Notice") and accompanying management information circular of the Fund (the "Information Circular"), attached as Exhibit "A" to the Hodgins Affidavit.

## **SPECIAL MEETING**

2. Pursuant to section 291(2) and section 289 of the BCBCA, the Petitioners are authorized and directed to call, hold and conduct a annual general and special meeting (the "Meeting") of the registered holders of units of the Fund (the "Unitholders") to be held in the Terrace B Room at the Terminal City Club, 837 West Hastings Street, Vancouver, British Columbia, on Tuesday, April 27, 2010 at 11:30 a.m. for the following purposes:

- (a) to consider and, if deemed advisable, to pass, with or without variation, a special resolution (the "Arrangement Resolution") approving in accordance with section 289 of the BCBCA an arrangement substantially as contemplated in the Plan of Arrangement (the "Arrangement"), the form of which special resolution is attached as Appendix "A" to the Information Circular; and
- (b) to transact annual and such further or other business as may properly come before the Meeting or any adjournment or postponement thereof.

3. The Meeting shall be called, held and conducted in accordance with the Notice, the Information Circular, the declaration of trust dated April 19, 2006 of the Fund (the "Declaration of Trust") and applicable securities laws, subject to the terms of this Interim Order and any further Order of this Court, and the rulings and directions of the Chair of the Meeting, such rulings and directions not to be inconsistent with this Interim Order, and to the extent of any inconsistency this Interim Order shall govern or, if not specified in the Interim Order, the Information Circular shall govern.

## **AMENDMENTS**

4. The Petitioners are authorized to make, in the manner contemplated by and subject to the Arrangement Agreement, such amendments, modifications or supplements to the Arrangement as it may determine without any additional notice to or authorization of the Unitholders. The Arrangement, as so amended, modified or supplemented, shall be the Arrangement to be submitted to the Meeting and the subject of the Arrangement Resolution.

## **CANCELLATION, ADJOURNMENTS AND POSTPONEMENTS**

5. Notwithstanding the provisions of the BCBCA and the Declaration of Trust, the Trustees of the Fund by resolution shall be entitled to cancel, adjourn or postpone the Meeting on one or more occasions without the necessity of first convening the Meeting or first obtaining any vote of the Unitholders respecting the cancellation, adjournment or postponement. Notice of any such cancellation,



adjournment or postponement shall be given by press release, newspaper advertisement or notice sent to the Unitholders by one of the methods specified in paragraph 8 of this Interim Order, as determined to be the most appropriate method of communication by the trustees of the Fund (the "Board of Trustees").

#### **RECORD DATE**

6. The record date (the "Record Date") for determining registered Unitholders entitled to receive the Notice, the Information Circular and the form of proxy for use by such Unitholders (collectively, the "Meeting Materials") shall be the close of business on March 15, 2010, as previously approved by the Board of Trustees and made public by the Fund.

#### **NOTICE OF SPECIAL MEETING**

7. The Information Circular is hereby deemed to represent sufficient and adequate disclosure, including for the purpose of section 290(1)(a) of the BCBCA, and the Fund shall not be required to send to the Unitholders any other or additional statement pursuant to section 290(1)(a) of the BCBCA.

8. The Meeting Materials, with such amendments or additional documents as counsel for the Petitioners may advise are necessary or desirable, and as are not inconsistent with the terms of this Interim Order, shall be sent:

- (a) to registered Unitholders determined as at March 15, 2010 (the "Record Date"), at least twenty-one (21) days prior to the date of the Meeting, excluding the date of mailing or delivery and the date of the Meeting, by prepaid ordinary mail or by delivery in person or by recognized courier service, addressed to the registered Unitholder at its address as it appears in the register of Unitholders of the Fund as at the Record Date; or
- (b) to non-registered Unitholders (those whose names do not appear in the register of Unitholders the Fund), by providing, at least four (4) business days before the twenty-first day prior to the Meeting in accordance with National Instrument 54-101 - *Communications with Beneficial Owners of Securities of a Reporting Issuer* of the Canadian Securities Administrators, the requisite number of copies of the Meeting Materials to intermediaries and registered nominees to facilitate the distribution of the Meeting Materials to non-registered Unitholders;
- (c) at any time by email or facsimile transmission to any Unitholder who identifies himself to the satisfaction of the Petitioners (acting through

their representatives), who requests such email or facsimile transmission and, if required by the Petitioners, agrees to pay the charges related to such transmission;

- (d) to the trustees and auditors of the Fund by prepaid ordinary mail or by delivery in person or by recognized courier service or by email or facsimile transmission at least twenty-one (21) days prior to the date of the Meeting, excluding the date of mailing, delivery or transmission and the date of the Meeting;

and substantial compliance with this paragraph shall constitute good and sufficient notice of the Meeting.

9. The Meeting Materials shall not be sent to Unitholders where mail previously sent to such holders by the Fund or its registrar and transfer agent has been returned to the Fund or its registrar and transfer agent on at least two previous consecutive occasions.

10. Accidental failure of or omission by the Fund to send the Meeting Materials to any one or more Unitholders, or the non-receipt of the Meeting Materials, or any failure or omission to send the Meeting Materials as a result of events beyond the reasonable control of the Fund (including, without limitation, any inability to use postal services) shall not constitute a breach of this Interim Order or, in relation to notice to Unitholders, a defect in the calling of the Meeting shall not invalidate any resolution passed or proceeding taken at the Meeting, but if any such failure or omission is brought to the attention of the Fund, then it shall use reasonable best efforts to rectify it by the method and in the time most reasonably practicable in the circumstances.

#### **DEEMED RECEIPT OF NOTICE**

11. The Meeting Materials and any amendments, modifications, updates or supplements to the Meeting Materials and any notice of adjournment or postponement of the Meeting, shall be deemed to have been received,

- (a) in the case of mailing, at the time specified at section 6 of the BCBCA;
- (b) in the case of delivery in person, upon receipt thereof at the intended recipient's address or, in the case of delivery by courier, one (1) business day after receipt by the courier;
- (c) in the case of transmission by email or facsimile, upon the transmission thereof;

- (d) in the case of advertisement, at the time of publication of the advertisement;
- (e) in the case of electronic filing on SEDAR, upon the transmission thereof; and
- (f) in the case of non-registered Unitholders, four (4) days after delivery thereof to intermediaries and registered nominees.

#### **UPDATING MEETING MATERIALS**

12. Notice of any amendments, modifications, updates or supplements to any of the information provided in the Meeting Materials may be communicated to the Unitholders by press release, news release, newspaper advertisement or by notice sent to the Unitholders by any of the means set forth in paragraph 8, as determined to be the most appropriate method of communication by the Board of Trustees of the Fund.

#### **PERMITTED ATTENDEES**

13. The only persons entitled to attend the Meeting shall be:
- (a) registered Unitholders as at the close of business on the Record Date, or their respective proxyholders;
  - (b) the Fund's trustees, auditors and advisors;
  - (c) Newco's directors, officers and advisors; and
  - (d) other persons with the prior permission of the Chair of the Meeting;

and the only persons entitled to vote at the Meeting shall be the registered Unitholders as at the close of business on the Record Date, or their respective proxyholders.

#### **SOLICITATION OF PROXIES**

14. The Fund is authorized to use the form of proxy for Unitholders in substantially the same form as is attached as Exhibit "C" to the Hodgins Affidavit, subject to the Fund's ability to insert dates and other relevant information in the final form of proxy and to make other non-substantive changes and changes legal counsel advise are necessary or appropriate. The Fund is authorized, at its expense, to solicit proxies directly and through its trustees, associates and employees, and through such agents or representatives as it may retain for that purpose and by mail,

telephone or such other form of personal or electronic communication as it may determine.

15. The procedures for the use of proxies at the Meeting and revocation of proxies shall be as set out in the Notice and the Information Circular.

16. The Fund may in its discretion generally waive the time limits for the deposit of proxies by Unitholders if the Fund deems it advisable to do so, such waiver to be endorsed by the initials on the proxy of the Chair.

## **QUORUM AND VOTING**

17. At the Meeting, the votes shall be taken on the following bases:

- (a) each registered Unitholder whose name is entered on the register of unitholders of the Fund at the close of business on the Record Date is entitled to one (1) vote for each Fund Unit registered in his/her/its name;
- (b) the vote required to pass the Arrangement Resolution shall be the affirmative vote of at least two-thirds of the total votes cast by the Unitholders, voting as a single class, present in person or by proxy and entitled to vote at the Meeting (excluding from the count of total votes cast any spoiled, illegible and/or defective ballots and abstentions); and
- (c) a quorum at the Meeting shall be one or more individuals present in person either holding personally or representing as proxies not less in aggregate than ten percent (10%) of the votes attached to all of the outstanding Fund Units.

## **SCRUTINEER**

19. The scrutineer for the Meeting shall be CIBC Mellon Trust Company (acting through its representatives for that purpose). The duties of the scrutineer shall include:

- (a) invigilating and reporting to the Chair on the deposit and validity of proxies;
- (b) reporting to the Chair on the quorum of the Meeting;
- (c) reporting to the Chair on the polls taken or ballots cast, if any, at the Meeting; and

- (d) providing to the Fund and to the Chair written reports on matters related to their duties.

## DISSENT RIGHTS

20. Each registered Unitholder is granted the following rights to dissent (the "Dissent Rights") in respect of the Arrangement Resolution:

- (a) a registered Unitholder intending to exercise Dissent Rights must give a written notice of dissent (a "Dissent Notice") to the Fund at its head office at 1700 West 75<sup>th</sup> Avenue, Vancouver, British Columbia, Canada, V6P 6G2, Attention: Terry D. Hodgins, Secretary of Canfor Pulp Holding Inc., to be received by the Fund no later than 4:00 p.m. (Vancouver time) on April 23, 2010 and must comply with this paragraph 20;
- (b) a Dissent Notice must specify the name and address of the registered Unitholder, the number of Fund Units in respect of which the Dissent Notice is being given (the "Notice Units") and:
  - (i) if the Dissent Notice is being given by the registered Unitholder on its own behalf, the Dissent Notice must state that either:
    - (A) the Notice Units constitute all of the Fund Units of which the registered Unitholder is the beneficial owner; or
    - (B) the Notice Units constitute all of the Fund Units of which the registered Unitholder is both the registered and beneficial owner, the number of Fund Units of which the registered Unitholder is the beneficial owner but not the registered owner and, in respect of such units of which the registered Unitholder is only the beneficial owner, the names of the registered owners of such units, the number of such units held by each of them and that Dissent Notices are being, or have been, given in respect of all such units;
  - (ii) if the Dissent Notice is being given by the registered Unitholder on behalf of another person who is the beneficial owner of the Notice Units (the "Dissenting Owner"), the Dissent Notice must so state and must also:
    - (A) state the name and address of the Dissenting Owner;

- (B) state that the Notice Units represent all of the Fund Units registered in the name of the registered Unitholder which are beneficially owned by the Dissenting Owner; and
  - (C) include a statement from the Dissenting Owner stating the number of Fund Units of which the Dissenting Owner is the beneficial owner and, in respect of any such units which are not Notice Units, stating whether the Dissenting Owner is also the registered owner of any such units (and, if so, stating the number of such units) and if not, stating the names of the registered owners of such units and the number of such units held by each such registered owner, and that notices of dissent are being, or have been, given in respect of all such units;
- (c) a registered Unitholder must not vote in favour of the Arrangement Resolution any Fund Units registered in its name in respect of which the registered Unitholder has given a Dissent Notice;
- (d) if the Arrangement Resolution is passed at the Meeting, the Fund must send by registered mail to every registered Unitholder which has duly and validly given a Dissent Notice, prior to the date set for the hearing of the Final Order, a notice (a "Notice of Intention") stating that, subject to receipt of the Final Order and satisfaction of the other conditions set out in the Arrangement Agreement, the Fund intends to complete the Arrangement and advising the registered Unitholder that if the registered Unitholder wishes to proceed with its dissent, the registered Unitholder must comply with the requirements of paragraph 20(e);
- (e) a registered Unitholder that wishes to proceed with its dissent must give to the Fund at its head office at 1700 West 75<sup>th</sup> Avenue, Vancouver, British Columbia, Canada, V6P 6G2, Attention: Terry D. Hodgins, Secretary of Canfor Pulp Holding Inc., to be received by the Fund no later than 4:00 p.m. (Vancouver time) on the date which is 14 days after the date of mailing of the Notice of Intention:
  - (i) a written statement that the registered Unitholder requires the Fund to pay fair value for all of the Notice Units,
  - (ii) the certificates (if any) representing the Notice Units, and
  - (iii) if paragraph 20(b)(i)(B) or 20(b)(ii) applies, a written statement that:

- (A) is signed by the beneficial owner on whose behalf the Dissent Rights are being exercised, and
- (B) sets out whether or not the beneficial owner is the beneficial owner of other Fund Units and, if so, states:
  - (I) the names of the registered owners of those other units,
  - (II) the number of those other units that are held by each of those registered owners, and
  - (III) that the Dissent Rights have been exercised in respect of all of those other units;
- (f) if a registered Unitholder fails to strictly comply with the foregoing requirements of the Dissent Rights with respect to any Notice Units, the Fund shall return to the registered Unitholder the certificates representing those Notice Units, if any, delivered to it pursuant to paragraph 20(e), the Fund shall cease to have any further obligation to the registered Unitholder under paragraph 20(k) with respect to those Notice Units and, if the Arrangement is completed, that Registered Unitholder shall be deemed to have participated in the Arrangement with respect to those Notice Units on the same terms as other registered Unitholders who did not give a Dissent Notice to the Fund;
- (g) if a Dissent Notice is given to the Fund in respect of Notice Units by a registered Unitholder who is the beneficial owner of those Notice Units, or by a registered Unitholder on behalf of another person who is the beneficial owner of those Notice Units, and the foregoing Dissent Rights are not strictly complied with in respect of all the Fund Units beneficially owned by that beneficial owner, the Fund shall return to the registered Unitholder the certificates representing those Notice Units, if any, delivered to it pursuant to paragraph 20(e), the Fund's obligations under paragraph 20(k) shall terminate with respect to those Notice Units and, if the Arrangement is completed, that registered Unitholder shall be deemed to have participated in the Arrangement with respect to those Notice Units on the same basis as other registered Unitholders who did not give a Dissent Notice to the Fund;
- (h) a registered Unitholder that complies with the foregoing requirements of the Dissent Rights (a "Dissenting Unitholder") with respect to Notice Units is not able to withdraw its dissent and, on the Effective Date upon completion of the steps described in Article 3.1(b) of the



Plan of Arrangement, the Dissenting Unitholder will be deemed to have transferred the Fund all of those Notice Units (hereinafter the "Dissent Units) (free and clear of any mortgage, hypothec, prior claim, lien, pledge, assignment for security, security interest, right of third parties or other charges or encumbrances whatsoever) without any further act or formality, and will have no further right in respect of the Dissent Units other than to be paid by the Fund for the Dissent Units in accordance with paragraph 20(k) and, from and after the time at which the Dissenting Unitholder is deemed to have transferred to the Fund the Dissent Units; (i) in no case shall Newco, the Fund or any other person be required to recognize such Dissenting Unitholder as a registered or beneficial holder of those Dissent Units; and (ii) the name of such Dissenting Unitholder shall be removed from the applicable register of the Fund with respect to those Dissent Units as at the Effective Time;

- (i) a Dissenting Unitholder who is ultimately determined not to be entitled, for any reason, to be paid fair value for its Dissent Units, shall be deemed to have participated in the Arrangement in respect of those Fund Units on the same basis as a non-dissenting Unitholder and shall be entitled to receive only the Newco Shares that such non-dissenting Unitholders are entitled to receive pursuant to the Arrangement;
- (j) if a Dissenting Unitholder complies with the foregoing requirements of the Dissent Rights, but the Arrangement is not completed, the Fund shall return to the Dissenting Unitholder the certificates representing the Dissent Units, if any, delivered to it pursuant to paragraph 20(e) and the Fund shall have no obligations to the Dissenting Unitholder under paragraphs 20(k) and 20 (l);
- (k) The Fund shall promptly pay to a Dissenting Shareholder, for each Dissent Unit:
  - (i) the amount agreed upon by that Dissenting Unitholder and the Fund; or
  - (ii) if that Dissenting Unitholder and the Fund are unable to agree upon an amount, the amount determined under paragraph 20(l); and
- (l) The Fund or a Dissenting Unitholder who has not reached an agreement with the Fund under paragraph 20(k)(i) may apply to the Court and the Court may:

- (i) determine the fair value that the Dissent Units had immediately before the passing of the Arrangement Resolution, excluding any appreciation or depreciation in anticipation of the Arrangement unless such exclusion would be inequitable, or order that such fair value be established by arbitration or by reference to the registrar or a referee of the Court;
  - (ii) join in the application every Dissenting Unitholder, other than a Dissenting Unitholder who has reached an agreement with the Fund under paragraph 20(k)(i); and
  - (iii) make consequential orders and give directions it considers appropriate; and
- (m) for greater certainty, neither Newco, the Fund, nor any other person shall be required to recognize a Dissenting Unitholder as a registered or beneficial Unitholder of Fund Units at or after the Effective Time, and at the Effective Time the names of such Dissenting Unitholders shall be deleted from the register of Unitholders of the Fund.

#### **APPLICATION FOR FINAL ORDER**

22. The Fund shall include in the Meeting Materials, when sent in accordance with paragraph 8 of this Interim Order, a copy of the Notice of Petition herein, in substantially the form attached as Exhibit "B" to the Hodgins Affidavit, and this Interim Order (collectively, the "Court Materials"), and such Court Materials shall be deemed to have been served at the times specified in accordance with paragraph 8 and/or 11 of this Interim Order, whether such persons reside within British Columbia or within another jurisdiction.

23. The persons entitled to appear and be heard at any hearing to sanction and approve the Arrangement, shall be only:

- (a) The Fund and its trustees and advisers;
- (b) Newco and its directors, officers and advisers; and
- (c) persons who have served and filed an Appearance and have otherwise complied with the Rules of Court and paragraph 24 of this Interim Order.

24. The sending of the Meeting Materials in the manner contemplated by paragraph 8 and/or 11 shall constitute good and sufficient service and no other form of service need be effected and no other material need be served on such persons in respect of these proceedings, except with respect to any person who shall:

- (a) file an Appearance, in the form prescribed by the Rules of Court, together with any evidence or material which is to be presented to the Court at the hearing of the Application; and
- (b) deliver the filed Appearance together with a copy of any evidence or material which is to be presented to the Court at the hearing of the Application, to the Petitioners' counsel at:

Stikeman Elliott LLP  
Barristers and Solicitors  
1700 - 666 Burrard Street  
Vancouver, British Columbia  
V6C 2X8

Attention: Paula J. Price

by or before 4:00 p.m. (Vancouver time) on April 29, 2010.

25. Upon the approval by the Unitholders of the Arrangement, in the manner set forth in this Interim Order, the Petitioners may apply to this Court (the "Application") for an Order:

- (a) pursuant to section 291(4)(a) of the BCBCA approving the Arrangement; and
- (b) pursuant to section 291(4)(c) of the BCBCA declaring that the Arrangement is fair and reasonable to the Unitholders;

(collectively the "Final Order")

and that the hearing of the Application will be held on May 3, 2010 at 9:45 a.m. (Vancouver Time) at the Courthouse at 800 Smithe Street, Vancouver, British Columbia or as soon thereafter as the Application can be heard or at such other date and time as this Court may direct.

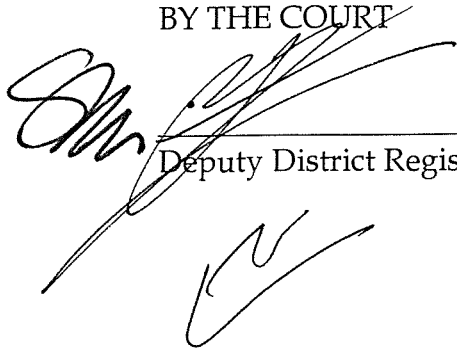
26. In the event that the hearing of the Application is adjourned, then only those persons who filed and delivered an Appearance in accordance with paragraph 24, need be served and provided with notice of the adjourned hearing date.

#### **VARIANCE**

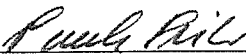
27. The Fund shall be entitled, at any time, to apply to vary this Interim Order.

28. Rules 44 and 51A will not apply to any further applications in respect of this proceeding, including the application for the Final Order and any application to vary this Interim Order.

BY THE COURT

  
\_\_\_\_\_  
Deputy District Registrar

APPROVED AS TO FORM:

  
\_\_\_\_\_  
Counsel for the Petitioner

**APPENDIX "C"**  
**ARRANGEMENT AGREEMENT**

Please see attached.

## ARRANGEMENT AGREEMENT

**THIS ARRANGEMENT AGREEMENT** is made as of the 15th day of March, 2010

### AMONG:

**CANFOR PULP PRODUCTS INC.**, a corporation incorporated under the laws of the Province of British Columbia ("**Newco**")

- and -

**CANFOR PULP INCOME FUND**, an unincorporated, open-ended trust established under the laws of the Province of Ontario by a declaration of trust made as of April 19, 2006 (the "**Fund**")

### WHEREAS:

- (a) Newco and the Fund wish to propose an arrangement with the holders of units of the Fund.
- (b) The Fund holds all of the issued and outstanding securities of Canfor Pulp Trust (the "**Trust**").
- (c) The Fund, through the Trust, indirectly holds a 49.8% interest in each of Canfor Pulp Holding Inc. (the "**General Partner**") and Canfor Pulp Limited Partnership (the "**Partnership**") with Canadian Forest Products Limited ("**CFP**") holding the remaining 50.2% interest in each of the General Partner and the Partnership.
- (d) The General Partner is the general partner of the Partnership with exclusive authority to manage the business and affairs of the Partnership.
- (e) As a result of the transactions contemplated herein, the holders of units of the Fund will become the shareholders of Newco and Newco will indirectly hold the Fund's 49.8% interest in each of the General Partner and the Partnership.
- (f) The parties hereto intend to carry out the transactions contemplated herein by way of an arrangement under the *Business Corporations Act* (British Columbia).
- (g) The parties hereto have entered into this Agreement to provide for the matters referred to in the foregoing recitals and for the other matters relating to such arrangement.

**NOW THEREFORE**, in consideration of the covenants and agreements herein contained and other good and valuable consideration (the receipt and sufficiency of which is hereby acknowledged), the parties hereto hereby covenant and agree as follows:

## ARTICLE 1 INTERPRETATION

### 1.1 Definitions

In this Agreement, the following terms have the following meanings:

- (a) "**Act**" means the *Business Corporations Act* (British Columbia), as amended, including all regulations made thereunder;
- (b) "**Agreement**", "**herein**", "**hereof**", "**hereto**", "**hereunder**" and similar expressions mean and refer to this arrangement agreement (including the schedules hereto) as supplemented, modified or amended, and not to any particular article, section, schedule or other portion hereof;

- (c) "**Arrangement**" means the proposed arrangement under the provisions of section 288 of the Act, on the terms and conditions set forth in the Plan of Arrangement, as supplemented, modified or amended;
- (d) "**Arrangement Resolution**" means the special resolution of the Unitholders approving the Arrangement;
- (e) "**Business Day**" means a day, other than a Saturday, Sunday or statutory holiday, when banks are generally open for business in the City of Vancouver, in the Province of British Columbia, for the transaction of banking business;
- (f) "**Court**" means the Supreme Court of British Columbia;
- (g) "**Effective Date**" means January 1, 2011 or such other date as Newco and the Fund may agree;
- (h) "**Effective Time**" means 12:01 a.m. (Vancouver time), or such other time as Newco and the Fund may agree, on the Effective Date;
- (i) "**Exchange Agreement**" means the Exchange Agreement dated July 1, 2006 between CFP, the Fund, the Trust, the General Partner and the Partnership and all other persons who acquire units of the Partnership and common shares of the General Partner and agree to become a party thereto and to be bound thereby, as supplemented, modified or amended;
- (j) "**Final Order**" means the final order of the Court approving the Arrangement as such order may be amended or varied at any time prior to the Effective Time or, if appealed, then, unless such appeal is withdrawn or denied, as affirmed or as amended on appeal;
- (k) "**Fund Declaration of Trust**" means the declaration of trust made as of April 19, 2006, pursuant to which the Fund was established, as supplemented, modified or amended;
- (l) "**Fund Support Agreement**" means the fund support agreement between the Fund, the Trust, the General Partner and the Partnership dated as of July 1, 2006;
- (m) "**Fund Units**" means the units of the Fund;
- (n) "**Information Circular**" means the information circular of the Fund dated March 15, 2010, together with all appendices thereto, forwarded as part of the proxy solicitation materials to Unitholders in respect of the Meeting;
- (o) "**Interim Order**" means the interim order of the Court concerning the Arrangement providing for, among other things, the calling and the holding of the Meeting, as such order may be amended, supplemented or varied by the Court;
- (p) "**Meeting**" means the annual and special meeting of Unitholders to be held, among other things, to consider the Arrangement and related matters, and any adjournment thereof;
- (q) "**Newco Shares**" means common shares in the share capital of Newco;
- (r) "**Partnership Agreement**" means the limited partnership agreement dated April 19, 2006 in respect of the Partnership, as supplemented, modified or amended;
- (s) "**Person**" includes an individual, limited or general partnership, limited liability company, limited liability partnership, trust, joint venture, association, body corporate, trustee, executor, administrator, legal representative, government (including any governmental entity) or any other entity, whether or not having legal status;
- (t) "**Plan of Arrangement**" means the plan of arrangement attached hereto as Schedule A, as amended or supplemented from time to time in accordance with the terms thereof;
- (u) "**Registrar**" means the Registrar of Companies appointed under Section 400 of the Act;



- (v) **"Shareholders' Agreement"** means the amended and restated shareholders' agreement dated October 26, 2009 between CFP, the Trust, the General Partner, the Partnership and the Fund as supplemented, modified or amended;
- (w) **"Subsidiary"** means, with respect to any Person, a subsidiary (as that term is defined in the Act (for such purposes, if such person is not a corporation, as if such person were a corporation)) of such Person and includes any limited partnership, joint venture, trust, limited liability company, unlimited liability company or other entity, whether or not having legal status, that would constitute a subsidiary (as described above) if such entity were a corporation;
- (x) **"Trustee"** or **"Trustees"** means the trustees of the Fund or any one of such trustee;
- (y) **"Trust Declaration of Trust"** means the a declaration of trust made as of April 19, 2006, pursuant to which the Trust was established as supplemented, modified or amended;
- (z) **"Trust Note Indenture"** means the note indenture dated July 1, 2006 between the Trust and CIBC Mellon Trust Company as supplemented, modified or amended;
- (aa) **"TSX"** means the Toronto Stock Exchange; and
- (bb) **"Unitholders"** means holders from time to time of Fund Units.

## **1.2 Currency**

All sums of money which are referred to in this Agreement are expressed in lawful money of Canada unless otherwise specified.

## **1.3 Interpretation Not Affected by Headings**

The division of this Agreement into articles, sections and schedules and the insertion of headings are for convenience of reference only and shall not affect the construction or interpretation of this Agreement.

## **1.4 Article References**

Unless reference is specifically made to some other document or instrument, all references herein to articles, sections and schedules are to articles, sections and schedules of this Agreement.

## **1.5 Extended Meanings**

Unless the context otherwise requires, words importing the singular number shall include the plural and vice versa; words importing any gender shall include all genders; and words importing persons shall include individuals, partnerships, associations, corporations, trusts, unincorporated organizations, governments, regulatory authorities, and other entities.

## **1.6 Date for any Action**

In the event that any date on which any action required to be taken hereunder by any of the parties hereto is not a Business Day in the place where the action is required to be taken, such action shall be required to be taken on the next succeeding day which is a Business Day in such place.

## **1.7 Entire Agreement**

This Agreement, together with the schedule attached hereto, constitutes the entire agreement between the parties pertaining to the subject matter hereof and supersedes all prior agreements, understandings, negotiations and discussions, whether oral or written, between the parties with respect to the subject matter hereof.

## **1.8 Governing Law**

This Agreement shall be governed by and construed in accordance with the laws of the province of British Columbia and the federal laws of Canada applicable therein.

## **1.9 Schedule**

Schedule A annexed to this Agreement, being the Plan of Arrangement, is incorporated by reference into this Agreement and forms a part hereof.

## **ARTICLE 2 THE ARRANGEMENT**

### **2.1 Arrangement**

As soon as reasonably practicable, Newco shall apply to the Court pursuant to the Act for an order approving the Arrangement and in connection with such application shall:

- (a) forthwith file, proceed with and diligently prosecute an application for the Interim Order, providing for, among other things, the calling and holding of the Meeting for the purpose of, among other things, considering and, if deemed advisable, approving the Arrangement Resolution; and
- (b) subject to obtaining all necessary approvals of the Unitholders as contemplated in the Interim Order and as may be directed by the Court in the Interim Order, take steps necessary to submit the Arrangement to the Court and apply for the Final Order.

### **2.2 Effective Date**

The Arrangement shall become effective at the Effective Time on the Effective Date.

## **ARTICLE 3 COVENANTS**

### **3.1 Covenants of the Fund**

The Fund covenants and agrees that it will:

- (a) take all actions necessary to give effect to the transactions contemplated by this Agreement and the Arrangement;
- (b) use all reasonable efforts to obtain all necessary consents, assignments, waivers and amendments to or terminations of any instruments and take such measures as may be appropriate to fulfill its obligations hereunder and to carry out the transactions contemplated hereby;
- (c) solicit proxies to be voted at the Meeting in favour of the Arrangement Resolution and prepare the Information Circular and proxy solicitation materials and any amendments or supplements thereto as required by, and in compliance with, the Interim Order and applicable corporate and securities laws, and file and distribute same to the Unitholders in a timely and expeditious manner in all jurisdictions where same are required to be filed and distributed;
- (d) convene the Meeting as ordered by the Interim Order and conduct such Meeting in accordance with the Interim Order and as otherwise required by law;
- (e) until the Effective Date, conduct its operations and those of the Trust in the ordinary and normal course of business and in accordance with applicable laws, generally accepted industry practice and any operating and other agreements applicable to its properties and assets;
- (f) use all reasonable efforts to cause each of the conditions precedent set forth in Article 4 which are within its control to be satisfied on or before the Effective Date;

- (g) subject to the approval of the Arrangement Resolution by the Unitholders, as required by the Interim Order, submit the Arrangement to the Court and apply, in conjunction with Newco, for the Final Order;
- (h) forthwith carry out the terms of the Final Order to the extent applicable to it;
- (i) subject to all of the conditions set forth in Article 4 required by the Plan of Arrangement to be completed prior to the Effective Date being complied with or waived, file with the Registrar, on a date and time agreed by the Fund and Newco, all such documents, if any, as may be required to be filed with the Registrar pursuant to the Act to effect the Arrangement;
- (j) not, except in the ordinary course of business or as contemplated in connection with the Plan of Arrangement, merge into or with, or consolidate with, any other Person or perform any act or enter into any transaction or negotiation which might interfere or be inconsistent with the consummation of the transactions contemplated by this Agreement;
- (k) until the Effective Date, except as specifically provided for hereunder and for the purpose of the Arrangement, not alter or amend its constating or governing documents, or those of the Trust, as the same exist at the date of this Agreement; and
- (l) prior to the Effective Date, make application for approval to list the Newco Shares issuable pursuant to the Arrangement on the TSX.

### **3.2 Covenants of Newco**

Newco covenants and agrees that it will:

- (a) take all action necessary to give effect to the transactions contemplated by this Agreement and the Arrangement;
- (b) use all reasonable efforts to obtain all necessary consents, assignments, waivers and amendments to or terminations of any instruments and take such measures as may be appropriate to fulfill its obligations hereunder and to carry out the transactions contemplated hereby;
- (c) until the Effective Date, other than as contemplated herein, in the Plan of Arrangement or in the Information Circular, not carry on any business, enter into any transaction or effect any corporate act whatsoever other than as contemplated herein or in the Information Circular without the prior written consent of the Fund;
- (d) until the Effective Date, not issue any securities or enter into any agreements to issue or grant options, warrants or rights to purchase any of its securities;
- (e) use all reasonable efforts to cause each of the conditions precedent set forth in Article 4 which are within its control to be satisfied on or before the Effective Date;
- (f) subject to approval of the Arrangement Resolution by Unitholders, as required by the Interim Order, submit the Arrangement to the Court and apply, in conjunction with the Fund, for the Final Order;
- (g) forthwith carry out the terms of the Final Order to the extent applicable to it;
- (h) subject to all of the conditions set forth in Article 4 required by the Plan of Arrangement to be completed prior to the Effective Date being complied with or waived, file with the Registrar, on a date and time agreed by the Fund and Newco, all such documents, if any, as may be required to be filed with the Registrar pursuant to the Act to effect the Arrangement;
- (i) reserve and authorize for issuance the Newco Shares issuable pursuant to the Arrangement; and
- (j) prior to the Effective Date, co-operate with the Fund in making application for approval to list the Newco Shares issuable pursuant to the Arrangement on the TSX.

### **3.3 Mutual Conditions Precedent**

The parties agree that, pursuant to the Arrangement, the Fund Declaration of Trust will be amended in a manner satisfactory to the Fund and Newco, in each case acting reasonably, if and as necessary to facilitate and implement the Arrangement.

## **ARTICLE 4 CONDITIONS PRECEDENT**

### **4.1 Mutual Conditions Precedent**

The respective obligations of Newco and the Fund to complete the transactions contemplated by this Agreement and the Arrangement shall be subject to the fulfilment or satisfaction, on or before the Effective Date, of each of the following conditions, any of which may be waived collectively by them without prejudice to their right to rely on any other condition:

- (a) the Interim Order shall have been granted in form and substance satisfactory to Newco and the Fund, acting reasonably, not later than March 31, 2010 or such later date as Newco and the Fund may agree and shall not have been set aside or modified in a manner unacceptable to such parties on appeal or otherwise;
- (b) the Arrangement Resolution shall have been approved by the requisite number of votes cast by the Unitholders at the Meeting in accordance with the provisions of the Interim Order and any applicable regulatory requirements;
- (c) the Final Order shall have been granted in form and substance satisfactory to Newco and the Fund, acting reasonably, not later than December 31, 2010 or such later date as Newco and the Fund may agree;
- (d) any conditions in addition to those set out in this Section 4.1 which may be imposed by the Interim Order or the Final Order shall have been satisfied;
- (e) no material action or proceeding shall be pending or threatened by any person, company, firm, governmental authority, regulatory body or agency and there shall be no action taken under any existing applicable law or regulation, nor any statute, rule, regulation or order which is enacted, enforced, promulgated or issued by any court, department, commission, board, regulatory body, government or governmental authority or similar agency, domestic or foreign, that:
  - (i) makes illegal or otherwise directly or indirectly restrains, enjoins or prohibits the Arrangement or any other transactions contemplated herein; or
  - (ii) results in a judgment or assessment of material damages directly or indirectly relating to the transactions contemplated herein;
- (f) each of the Trust Declaration of Trust, the Exchange Agreement, the Partnership Agreement, the Shareholders' Agreement, the Fund Support Agreement and the Trust Note Indenture, and any other agreement, instrument and document which either the Fund or Newco may specify by notice to the other, shall have been amended, modified, supplemented if and to the extent necessary or, in the reasonable opinion of the Fund and Newco, desirable to facilitate the transactions contemplated under the Arrangement and the subsequent wind-up of the Fund and the Trust;
- (g) the Fund shall have, or shall have entered into arrangements under which it can obtain, sufficient funds to repurchase any Fund Units held by Dissenting Unitholders (if any) in accordance with the Plan of Arrangement;
- (h) all necessary material third party and regulatory consents and approvals with respect to the transactions contemplated under the Arrangement shall have been completed or obtained;

- (i) as of the Effective Date, the aggregate number of Fund Units in respect of which Unitholders have duly and validly exercised their rights of dissent under the Interim Order (and not withdrawn such exercise) shall not exceed 1% of the Fund Units then outstanding; and
- (j) the TSX shall have conditionally approved the substitutional listing of the Newco Shares to be issued pursuant to the Arrangement as at the Effective Time, subject only to the filing of required documents which cannot be filed prior to the Effective Date.

#### **4.2 Additional Conditions to Obligations of the Fund**

In addition to the conditions contained in Section 4.1, the obligations of the Fund to complete the transactions contemplated by this Agreement and the Arrangement are subject to the fulfillment or satisfaction, on or before the Effective Date, of each of the following conditions, any of which may be waived by the Fund without prejudice to its right to rely on any other condition:

- (a) each of the covenants, acts and undertakings of Newco to be performed or complied with on or before the Effective Date pursuant to the terms of this Agreement and the Arrangement shall have been duly performed or complied with; and
- (b) the board of trustees of the Fund shall not have determined in their sole and absolute discretion that to proceed with the Arrangement would not be in the best interests of the Unitholders.

#### **4.3 Additional Conditions to Obligations of Newco**

In addition to the conditions contained in Section 4.1, the obligation of Newco to complete the transactions contemplated by this Agreement and the Arrangement is subject to the fulfillment or satisfaction, on or before the Effective Date, of the following conditions, any of which may be waived by Newco without prejudice to its right to rely on any other condition:

- (a) each of the covenants, acts and undertakings of the Fund to be performed or complied with on or before the Effective Date pursuant to the terms of this Agreement and the Arrangement shall have been duly performed or complied with; and
- (b) prior to the Effective Date, there shall have been no material adverse change in the affairs, operations, financial condition or business of the Fund, the Trust, the General Partner, or the Partnership or any of its Subsidiaries from that reflected in the Information Circular.

#### **4.4 Notice and Effect of Failure to Comply with Conditions**

If any of the conditions precedent set forth in Sections 4.1, 4.2 or 4.3 hereof shall not be complied with or waived by the party or parties for whose benefit such conditions are provided on or before the date required for the performance thereof, then a party for whose benefit the condition precedent is provided may, in addition to any other remedies they may have at law or equity, rescind and terminate this Agreement provided that, prior to the Effective Time, the party intending to rely thereon has delivered a written notice to the other party, specifying in reasonable detail all breaches of covenants which the party delivering such notice is asserting as the basis for the non-fulfillment of the applicable conditions precedent and the party in breach shall have failed to cure such breach within three Business Days of receipt of such written notice thereof (except that no cure period shall be provided for a breach which by its nature cannot be cured). More than one such notice may be delivered by a party.

#### **4.5 Satisfaction of Conditions**

Unless this Agreement is terminated in accordance with Section 5.2, the conditions set out in this Article 4 are conclusively deemed to have been satisfied, waived or released, with the agreement of the parties, at the Effective Time.

**ARTICLE 5  
AMENDMENT AND TERMINATION**

**5.1 Amendments**

This Agreement may, at any time and from time to time before or after the Meeting, be amended in any respect whatsoever by written agreement of the parties hereto without further notice to or authorization on the part of the Unitholders; provided that any such amendment that changes the consideration to be received by the Unitholders pursuant to the Arrangement is brought to the attention of the Court before approval of the Final Order and is subject to such requirements as may be ordered by the Court.

**5.2 Termination**

This Agreement shall be terminated in each of the following circumstances:

- (a) the mutual agreement of the parties;
- (b) the Arrangement shall not have become effective on or before January 1, 2011 or such later date as may be agreed to by Newco and the Fund; and
- (c) termination of this Agreement under Article 4 hereof.

**ARTICLE 6  
GENERAL**

**6.1 Binding Effect**

This Agreement shall be binding upon and enure to the benefit of the parties hereto and their respective successors and permitted assigns.

**6.2 No Assignment**

No party may assign its rights or obligations under this Agreement.

**6.3 Exclusivity**

None of the covenants of the Fund contained herein shall prevent the board of trustees of the Fund from responding as required by law to any unsolicited submission or proposal regarding any acquisition or disposition of assets or any unsolicited proposal to amalgamate, merge or effect an arrangement or any unsolicited acquisition proposal generally or make any disclosure to its securityholders with respect thereto which in the judgment of the board of trustees of the Fund, acting upon the advice of outside counsel, is required under applicable law.

**6.4 Equitable Remedies**

All covenants herein or to be given hereunder as to enforceability in accordance with the terms of any covenant, agreement or document shall be qualified as to applicable bankruptcy and other laws affecting the enforcement of creditors' rights generally and to the effect that specific performance, being an equitable remedy, may only be ordered at the discretion of the court.

**6.5 Severability**

If any one or more of the provisions or parts thereof contained in this Agreement should be or become invalid, illegal or unenforceable in any respect in any jurisdiction, the remaining provisions or parts thereof contained herein shall be conclusively deemed to be, as to such jurisdiction, severable therefrom and:

- (a) the validity, legality or enforceability of such remaining provisions or parts thereof shall not in any way be affected or impaired by the severance of the provisions or parts thereof severed; and

- (b) the invalidity, illegality or unenforceability of any provision or part thereof contained in this Agreement in any jurisdiction shall not affect or impair such provision or part thereof or any other provisions of this Agreement in any other jurisdiction.

**6.6 Further Assurances**

Each party hereto shall, from time to time and at all times hereafter, at the request of another party hereto, but without further consideration, do all such further acts, and execute and deliver all such further documents and instruments as may be reasonably required in order to fully perform and carry out the terms and intent hereof.

**6.7 Time of Essence**

Time shall be of the essence.

**6.8 Liability of the Fund**

The parties hereto acknowledge that the obligations of the Fund hereunder shall not be personally binding upon the Trustees or any Unitholders and that any recourse against the Fund or any Unitholders in any manner in respect of any indebtedness, obligation or liability of the Fund arising hereunder or arising in connection herewith or from the matters to which this Agreement relates, if any, including without limitation claims based on contract, on negligence, tortious behaviour or otherwise, shall be limited to, and satisfied only out of, the Fund.

**6.9 Counterparts**

This Agreement may be executed in counterparts, each of which shall be deemed an original, and all of which together constitute one and the same instrument.

**[Signature page follows]**



**IN WITNESS WHEREOF** this Agreement has been executed and delivered by the parties hereto effective as of the date first above written.

**CANFOR PULP PRODUCTS INC.**

By:           "*Terry D. Hodgins*"            
Name: Terry D. Hodgins  
Title: Director

**CANFOR PULP INCOME FUND**

By:           "*Stan E. Bracken-Horrocks*"            
Name: Stan E. Bracken-Horrocks  
Title: Trustee

**SCHEDULE A**  
**PLAN OF ARRANGEMENT**  
**UNDER SECTION 288 OF THE**  
***BUSINESS CORPORATIONS ACT (BRITISH COLUMBIA)***

**ARTICLE 1**  
**INTERPRETATION**

- 1.1 In this Plan of Arrangement, the following terms have the following meanings:
- (a) "**Act**" means the *Business Corporations Act* (British Columbia), as amended, including all regulations made thereunder;
  - (b) "**Arrangement**", "**herein**", "**hereof**", "**hereto**", "**hereunder**" and similar expressions mean and refer to the arrangement pursuant to Section 288 of the Act set forth in this Plan of Arrangement as supplemented, modified or amended, and not to any particular article, section or other portion hereof;
  - (c) "**Arrangement Agreement**" means the arrangement agreement dated as of March 15, 2010, among Newco and the Fund, including the schedules attached thereto, as the same may be amended or supplemented from time to time;
  - (d) "**Business Day**" means a day, other than a Saturday, Sunday or statutory holiday, when banks are generally open for business in the City of Vancouver, in the Province of British Columbia, for the transaction of banking business;
  - (e) "**Court**" means the Supreme Court of British Columbia;
  - (f) "**Dissent Fund Units**" means the Fund Units held by a Dissenting Unitholder and in respect of which the Dissenting Unitholder has duly and validly exercised the Dissent Rights;
  - (g) "**Dissent Rights**" has the meaning set out in Article 4.1 hereof;
  - (h) "**Dissenting Unitholders**" means registered holders of Fund Units who duly and validly exercise Dissent Rights and whose dissent rights remain valid immediately before the Effective Time;
  - (i) "**Effective Date**" means January 1, 2011 or such other date as Newco and the Fund may agree;
  - (j) "**Effective Time**" means 12:01 a.m. (Vancouver time), or such other time as Newco and the Fund may agree, on the Effective Date;
  - (k) "**Final Order**" means the final order of the Court approving this Arrangement as such order may be amended or varied at any time prior to the Effective Time or, if appealed, then, unless such appeal is withdrawn or denied, as affirmed or as amended on appeal;
  - (l) "**Fund**" means Canfor Pulp Income Fund;
  - (m) "**Fund Declaration of Trust**" means the declaration of trust made as of April 19, 2006, pursuant to which the Fund was established, as supplemented, modified or amended;
  - (n) "**Fund Units**" means units of the Fund;
  - (o) "**Information Circular**" means the information circular of the Fund dated March 15, 2010, together with all appendices thereto, forwarded as part of the proxy solicitation materials to Unitholders in respect of the Meeting;

- (p) **"Interim Order"** means the interim order of the Court concerning the Arrangement providing for, among other things, the calling and the holding of the Meeting, as such order may be amended, supplemented or varied by the Court;
  - (q) **"Letter of Transmittal"** means the letter of transmittal (if any) to be sent by the Fund to CDS & Co., as the sole registered holder of Fund Units;
  - (r) **"Meeting"** means the annual and special meeting of Unitholders to be held to consider, among other things, the Arrangement and related matters, and any adjournment thereof;
  - (s) **"Newco"** means Canfor Pulp Products Inc., a corporation incorporated under the Act and a wholly-owned subsidiary of the Fund prior to the Effective Time;
  - (t) **"Newco Shares"** means common shares in the share capital of Newco;
  - (u) **"Non-Qualified U.S. Holder"** means a U.S. Holder who is not a Qualified U.S. Holder;
  - (v) **"Person"** includes an individual, limited or general partnership, limited liability company, limited liability partnership, trust, joint venture, association, body corporate, trustee, executor, administrator, legal representative, government (including any governmental entity) or any other entity, whether or not having legal status;
  - (w) **"Plan of Arrangement"** means this plan of arrangement as amended or supplemented from time to time in accordance herewith, the Arrangement Agreement and any order of the Court;
  - (x) **"Qualified Purchaser"** has the meaning set forth in Section 2(a)(51)(A) of the Investment Company Act of 1940, as amended;
  - (y) **"Qualified U.S. Holder"** means a U.S. Holder who is a Qualified Purchaser and who has, prior to the Effective Date, properly submitted (and not withdrawn) a Qualified Purchaser certification in form and content satisfactory to Newco (in its sole discretion);
  - (z) **"Sale Trustee"** means CIBC Mellon Trust Company or such other person as Newco may select;
  - (aa) **"Unitholders"** means holders from time to time of Fund Units; and
  - (bb) **"U.S. Holder"** means a person who resides in the United States.
- 1.2 The division of this Plan of Arrangement into Articles and Sections and the insertion of headings are for convenience of reference only and shall not affect the construction or interpretation of this Plan of Arrangement.
- 1.3 Unless reference is specifically made to some other document or instrument, all references herein to Articles and Sections are to articles and sections of this Plan of Arrangement.
- 1.4 Unless the context otherwise requires, words importing the singular number shall include the plural and vice versa; words importing any gender shall include all genders; and words importing persons shall include individuals, partnerships, associations, corporations, funds, unincorporated organizations, governments, regulatory authorities, and other entities.
- 1.5 In the event that the date, other than the Effective Date, on which any action is required to be taken hereunder by any of the parties is not a Business Day in the place where the action is required to be taken, such action shall be required to be taken on the next succeeding day which is a Business Day in such place.
- 1.6 References in this Plan of Arrangement to any statute (or section thereof) includes all regulation and rules made thereunder, all amendment to such statute (or section thereof), regulation or rule in force from time to time and any statute (or section thereof), regulation or rule that supplements or supersedes such statute (or section thereof), resolution or rule.

**ARTICLE 2**  
**ARRANGEMENT AGREEMENT**

- 2.1 This Plan of Arrangement is made pursuant to, is subject to the provisions of, and forms part of, the Arrangement Agreement and will become effective on, and be binding on and after, the Effective Time on: (i) the Unitholders; (ii) Newco; and (iii) the Fund.
- 2.2 Other than as expressly provided for herein, no portion of this Plan of Arrangement shall take effect with respect to any party or Person until the Effective Time. Furthermore, each of the events listed in Article 3 shall be, without affecting the timing set out in Article 3, mutually conditional, such that no event described in said Article 3 may occur without all steps occurring, and those events shall effect the integrated transaction which constitutes the Arrangement.

**ARTICLE 3**  
**ARRANGEMENT**

- 3.1 Commencing at the Effective Time, each of the events set out below shall occur and shall be deemed to occur in the following order, without any further act or formality except as otherwise provided herein:

**Amendment to the Fund Declaration of Trust**

- (a) the Fund Declaration of Trust shall be amended to the extent necessary to facilitate the Arrangement as provided herein;

**Dissent Fund Units**

- (b) the Dissent Fund Units shall be deemed to have been transferred by the Dissenting Unitholders to the Fund (free of any claims) and cancelled. Such Dissenting Unitholders shall cease to have any rights as Unitholders in respect of the Dissent Fund Units other than the right to be paid the fair value of their Dissent Fund Units in accordance with Article 4;

**Exchange of Fund Units for Newco Shares**

- (c) the Fund Units held by the Unitholders (other than the Dissent Fund Units transferred to the Fund in accordance with Article 3.1(b)) shall be transferred to Newco in consideration for Newco Shares on the basis of one Newco Share for each Fund Unit so transferred; and

**Cancellation of Common Shares of Newco**

- (d) the one (1) Common Share of Newco issued to the Fund in connection with the incorporation and organization of Newco shall be purchased for cancellation by Newco in consideration for \$1.00, and shall be cancelled.
- 3.2 Upon the exchange at the Effective Time of Fund Units for Newco Shares pursuant to Article 3.1(c) and as a result of such exchange:
- (a) each former holder of Fund Units (other than Dissenting Unitholders with respect to Dissent Fund Units) shall cease to be the holder of the Fund Units so exchanged and the name of each such holder shall be removed from the register of holders of Fund Units;
- (b) each such holder of Fund Units (other than Dissenting Unitholders with respect to Dissent Fund Units) shall become the holder of the Newco Shares exchanged for the Fund Units held by such holder and shall be added to the register of holders of Newco Shares in respect thereof; and
- (c) Newco shall become the holder of the Fund Units so exchanged and shall be added to the register of holders of Fund Units in respect thereof.

**ARTICLE 4**  
**DISSENTING UNITHOLDERS**

- 4.1 Each registered Unitholder may exercise rights of dissent ("**Dissent Rights**") with respect to the Fund Units held by it pursuant to and in the manner set forth in the Interim Order. Dissenting Unitholders who:
- (a) are ultimately entitled to be paid by the Fund fair value for their Dissent Fund Units shall be deemed to have transferred such Dissent Fund Units (free of any liens, claims or encumbrances) to the Fund for cancellation contemporaneously with the completion of the step described in Article 3.1(b); or
  - (b) are ultimately not entitled, for any reason, to be paid by the Fund fair value for their Fund Units in respect of which they dissent, shall be deemed to have participated in the Arrangement in respect of those Fund Units on the same basis as a non-dissenting Unitholder and shall be entitled to receive only the Newco Shares that such non-dissenting Unitholders are entitled to receive, on the basis set forth in Article 3.1(c) and, for greater certainty, will be considered to have exchanged such Fund Units for Newco Shares pursuant to, and at the same time as Fund Units were transferred by Unitholders to Newco pursuant to, Article 3.1(c).
- 4.2 Dissenting Unitholders shall cease to have any rights as Unitholder with respect to Dissent Fund Units and shall only be entitled to the rights set forth in Article 4.1.
- 4.3 In no event shall the Fund, Newco or any other person be required to recognize a Dissenting Unitholder as a registered or beneficial owner of Dissent Fund Units at or after the Effective Time, and at the Effective Time the names of such Dissenting Unitholders shall be deleted from the applicable register of the Fund as at the Effective Time.
- 4.4 For greater certainty, in addition to any other restrictions in the Interim Order, no person shall be entitled to exercise Dissent Rights with respect to Fund Units in respect of which a person has voted in favour of the Arrangement.

**ARTICLE 5**  
**OUTSTANDING CERTIFICATES AND FRACTIONAL SECURITIES**

- 5.1 Any certificates formerly representing Fund Units that are not deposited, together with a duly completed Letter of Transmittal (if any) and any other documents as Newco or the Fund may reasonably require shall, from and after the Effective Time, represent only the right to receive the consideration to which the holders are entitled under the Arrangement, or as to Dissent Fund Units, other than Dissent Fund Units in respect of which those Dissenting Unitholders are deemed to have participated in the Arrangement pursuant to Article 4.1, to receive the fair value of the Fund Units represented by such certificates. If any certificates formerly representing Fund Units have not been so deposited on or before the sixth anniversary of the Effective Date, such certificates shall cease to represent a right or claim of any kind or nature and the right of the holder of the Fund Units previously represented thereby to receive Newco Shares shall be deemed to be forfeited to Newco for cancellation for no consideration, together with all interest or distributions thereon held for such holder.
- 5.2 If any certificate which immediately prior to the Effective Time represented an interest in outstanding Fund Units that were transferred pursuant to Article 3.1 has been lost, stolen or destroyed, upon the making of an affidavit of that fact by the person claiming such certificate to have been lost, stolen or destroyed, Newco will, subject to the terms hereof, issue and deliver (or cause to be issued and delivered) in exchange for such lost, stolen or destroyed certificate the consideration to which the holder is entitled pursuant to the Arrangement (and any dividends or distributions with respect thereto) as determined in accordance with the Arrangement. The person who is entitled to receive such consideration shall, as a condition precedent to the receipt thereof, give a bond to each of Newco and the Fund and their respective transfer agents in such sum as Newco may direct, which bond is in form and substance satisfactory to each of Newco and the Fund and their respective transfer agents, or shall otherwise indemnify Newco, and the Fund and their respective transfer agents in a manner satisfactory to Newco and the Fund, acting reasonably, against any claim that may be made against any of them with respect to the certificate alleged to have been lost, stolen or destroyed.

- 5.3 Notwithstanding the foregoing:
- (a) any Newco Shares that would be issuable to a person who appears to Newco to be a Non-Qualified U.S. Holder (or who, it appears to Newco, would otherwise hold such Newco Shares on behalf of a Non-Qualified U.S. Holder); and
  - (b) if it appears to Newco that it would be contrary to applicable law to issue Newco Shares pursuant to the Arrangement to a person that is not a resident of Canada, the Newco Shares that would be issuable to that person,

will be issued and delivered to the Sale Trustee for sale by the Sale Trustee on behalf of such persons.

- 5.4 Any Newco Shares delivered to the Sale Trustee pursuant to Article 5.3, will be pooled and sold as soon as practicable after the Effective Date, on such dates and at such prices as Sale Trustee determines in its sole discretion. The Sale Trustee shall not be obligated to seek or obtain a minimum price for any of the Newco Shares sold by it. Each such person referred to in Article 5.3 will receive such person's *pro rata* share of the cash proceeds from the sale of the Newco Shares sold by the Sale Trustee (less applicable brokerage commissions and other expenses and withholding taxes) in lieu of Newco Shares. None of Newco, the Fund, the Sale Trustee or any other person will be liable for any loss arising out of any such sales or the remittance of the proceeds thereof except for losses arising out of its gross negligence or wilful misconduct.
- 5.4 Newco and the Fund shall be entitled to deduct and withhold from any consideration payable to any holder of Fund Units pursuant to Article 3 or Article hereof or any amount payable pursuant to this Article 5, such amounts as Newco, the Fund is required to deduct and withhold with respect to such payment under applicable laws. To the extent that amounts are so withheld, such withheld amounts shall be treated for all purposes hereof as having been paid to the holder of the Fund Units in respect of which such deduction and withholding was made, provided that such withheld amounts are actually remitted to the appropriate authority.
- 5.5 No fractional Newco Shares, and no certificates representing fractional Newco Shares, shall be issued pursuant to this Plan of Arrangement. If a Unitholder is entitled to receive a fractional Newco Share, the number of Newco Shares issuable to such Unitholder under this Plan of Arrangement shall be rounded down to the nearest whole number of Newco Shares such Unitholder is entitled to received under this Plan of Arrangement.

## **ARTICLE 6**

### **AMENDMENT AND TERMINATION**

- 6.1 Newco and the Fund may amend, modify and/or supplement this Plan of Arrangement at any time and from time to time, provided that such amendment is (i) set out in writing; (ii) approved by the other parties; and (iii) filed with the Court.
- 6.2 Notwithstanding Article 6.4, any amendment, modification or supplement to this Plan of Arrangement may be made prior to the Effective Time by Newco and the Fund without the approval of the Court or Unitholders, provided that it concerns a matter which, in the reasonable opinion of Newco and the Fund, is of an administrative nature required to better give effect to the implementation of this Plan of Arrangement and is not adverse to the financial or economic interests of any Unitholder.
- 6.3 Notwithstanding Article 6.2, any amendment, modification or supplement to this Plan of Arrangement may be proposed by Newco and the Fund at any time prior to or at the Meeting with or without any other prior notice or communication and, if so proposed and accepted by a two-thirds majority of the votes cast thereon by the Unitholders present in person or by proxy voting at the Meeting, will become part of this Plan of Arrangement for all purposes.
- 6.4 Newco and the Fund may amend, modify and/or supplement this Plan of Arrangement at any time and from time to time, after the Meeting and prior to the Effective Time (i) with the approval of the Court, (ii) if and as required by the Court, after communication to Unitholders, and (iii) if required by the Court, after approved by Unitholders voting in the manner directed by the Court.

- 6.5 This Plan of Arrangement may be abandoned or withdrawn at any time prior to the Effective Time in accordance with the terms of the Arrangement Agreement, notwithstanding any prior approvals given at the Meeting. In addition to the foregoing, this Plan of Arrangement shall automatically and without notice, terminate immediately and be of no further force or effect, upon the termination of the Arrangement Agreement in accordance with its terms.

## **ARTICLE 7**

### **GENERAL**

- 7.1 Notwithstanding that the transactions and events set out herein shall occur and be deemed to occur in the order set out in this Plan of Arrangement without any further act or formality, each of the parties to the Arrangement Agreement shall make, do and execute, or cause to be made, done and executed, all such further acts, deeds, agreements, transfers, assurances, instruments or documents as may reasonably be required by any of them in order to further document or evidence any of the transactions or events set out herein.
- 7.2 If, prior to the Effective Date, any term or provision of this Plan of Arrangement is held by the Court to be invalid, void or unenforceable, the Court, at the request of any party, shall have the power to alter and interpret such term or provision to make it valid or enforceable to the maximum extent practicable, consistent with the original purpose of the term or provision held to be invalid, void or unenforceable, and such term or provision shall then be applicable as altered or interpreted. Notwithstanding any such holding, alteration or interpretation, the remainder of the terms and provisions of this Plan of Arrangement shall remain in full force and effect and shall in no way be affected, impaired or invalidated by such holding, alteration or interpretation.
- 7.3 This Plan of Arrangement shall be governed by and construed in accordance with the laws of the Province of British Columbia and the federal laws of Canada applicable therein. Any questions as to the interpretation or application of this Plan of Arrangement and all proceedings taken in connection with this Plan of Arrangement and its provisions shall be subject to the exclusive jurisdiction of the Court.



**APPENDIX "D"**  
**FAIRNESS OPINION**

Please see attached.

# RAYMOND JAMES®

March 12, 2010

The Board of Trustees  
Canfor Pulp Income Fund  
Suite 100  
1700 West 75<sup>th</sup> Avenue  
Vancouver, BC  
V6P 6G2

Dear Sirs:

Raymond James Ltd. (“Raymond James”, “we”, “us”, or “our”) understands that Canfor Pulp Income Fund (the “Fund”) plans to complete a reorganization pursuant to a plan of arrangement (the “Arrangement”). The Arrangement will result in the reorganization of the Fund’s income trust structure into a public corporation (“Newco”). Upon completion of the Arrangement, Newco will hold a 49.8% interest in each of Canfor Pulp Holding Inc. (the “General Partner”) and Canfor Pulp Limited Partnership (the “Partnership”), which is the entity operating the pulp business. Upon completion of the Arrangement, the remaining 50.2% of each of the General Partner and the Partnership will continue to be owned indirectly by Canfor Corporation (“Canfor Corp.”).

Pursuant to the Arrangement, holders (“Unitholders”) of trust units of the Fund (“Units”) will receive one common share of Newco (“Newco Share”) for each Unit held on the effective date of the Arrangement (the “Effective Date”).

## **Engagement**

The Board of Trustees of the Fund (the “Board”) engaged Raymond James to provide financial advisory services, including the provision of a written opinion that the consideration to be received by Unitholders pursuant to the Arrangement is fair, from a financial point of view, to the Unitholders (the “Fairness Opinion”). Pursuant to the terms of our engagement, Raymond James has not been engaged to prepare a formal valuation of any of the assets, shares, options or units involved in the Arrangement and this Fairness Opinion should not be construed as such. The terms of the engagement provide that Raymond James will receive a fee for its services. The fees payable to Raymond James are not contingent upon the conclusions reached by Raymond James herein. In addition, Raymond James is to be reimbursed for reasonable out-of-pocket expenses and Raymond James and its directors, officers and employees are to be indemnified by the Fund from and against certain liabilities which may be incurred in connection with the provision of its services.

Raymond James has received no instructions from the Board or management of the Fund in connection with the conclusions reached in the Fairness Opinion. Raymond James consents to the inclusion of the Fairness Opinion in its entirety, together with a summary thereof, in a form acceptable to Raymond James, acting reasonably, in the Information Circular with respect to the Arrangement (the “Circular”) to be delivered to Unitholders and to the filing thereof with the securities commission or similar regulatory authority in each province of Canada where such filing is required by law.

## **Credentials of Raymond James**

Raymond James is a wholly-owned, indirect subsidiary of Raymond James Financial, Inc. (“Raymond James Financial”). Raymond James Financial is a publicly listed, diversified financial services holding company whose subsidiaries engage primarily in investment and financial planning, including securities and insurance, brokerage, investment banking, asset management, banking and cash management and trust services. Raymond James is a Canadian full service investment dealer with operations located across Canada. Raymond James is a member of the Toronto Stock Exchange, the TSX Venture Exchange, the Montreal

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### **Raymond James Ltd.**

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*Member of Canadian Investor Protection Fund*

Exchange, the Investment Dealers Association of Canada, the Investment Funds Institute of Canada, and the Canadian Investor Protection Fund. Raymond James and its officers have prepared numerous valuations and fairness opinions and have participated in a significant number of transactions involving private and publicly traded companies.

The opinion expressed herein is the opinion of Raymond James, the form and content of which has been reviewed by a committee of managing directors or other professionals of Raymond James, each of whom is experienced in merger, acquisition, divestiture, valuation and fairness opinion matters.

### **Independence of Raymond James**

None of Raymond James or its associates or affiliates is an insider, associate or affiliate (as those terms are defined in the Securities Act (*British Columbia*)), or a related entity of the Fund, Canfor Corp., or their respective associates, affiliates, or insiders.

In the last two years, Raymond James has not provided any financial advisory services or participated in any equity financing involving the Fund or Canfor Corp. There are no understandings, agreements, or commitments between Raymond James and the Fund, Canfor Corp., or any of their respective associates, affiliates, or insiders with respect to any future business dealings. Raymond James may, in the future, in the ordinary course of its business, perform financial advisory or investment banking services for the Fund, Canfor Corp., or any of their respective associates, affiliates, or insiders. Raymond James does not believe that any of these relationships affects Raymond James' independence with respect to the Fairness Opinion.

Raymond James acts as a trader and dealer, both as principal and agent, in major financial markets and, as such may have had positions in the securities of the Fund or Canfor Corp. and, from time to time, may have executed transactions on behalf of clients for which it received or may receive compensation. As an investment dealer, Raymond James conducts research on securities and may, in the ordinary course of its business, provide research reports and investment advice to its clients on investment matters, including with respect to the Fund, Canfor Corp., or for any of their respective associates or affiliates and other interested parties.

### **Scope of Review**

In connection with rendering our Fairness Opinion, we have reviewed and relied upon, among other things, the following:

- (a) the draft arrangement agreement dated as of March 12, 2010 between the Fund and Newco (the "Arrangement Agreement") included in the Circular;
- (b) a draft of the Circular dated as of March 12, 2010;
- (c) certain internal information of the Partnership and its subsidiaries, including financial and operating projections prepared and provided by the management of the General Partner;
- (d) audited consolidated financial statements of the Fund and the Partnership for the year ended December 31, 2009;
- (e) annual reports of the Fund, including audited consolidated financial statements of the Fund and the Partnership for the years ended December 31, 2008 and December 31, 2007;
- (f) the annual information form of the Fund for each of the two years ended December 31, 2009 and December 31, 2008;
- (g) the management information circular of the Fund for each of the two years ended December 31, 2008 and December 31, 2007;

- (h) public filings submitted by the Fund to securities commissions or similar regulatory authorities and stock exchanges in Canada;
- (i) discussions with senior management of the General Partner;
- (j) discussions with the Fund's legal counsel;
- (k) discussions with PricewaterhouseCoopers LLP, the Fund's tax advisors, regarding the current provisions of the Income Tax Act (Canada) relating to the taxation of the Fund and other Canadian publicly-traded income trusts, including the regulations made thereunder, and any proposals to amend such legislation, and the administrative and assessing practices of the Canada Revenue Agency published in writing prior to the date of the Fairness Opinion (the "Income Trust Tax Regime");
- (l) a presentation and memorandums prepared by the Fund's tax advisors, concerning the structure of the Fund, conversion alternatives, the proposed Arrangement and their respective income tax implications;
- (m) public information with respect to other transactions and reorganizations of a comparable nature considered by us to be relevant;
- (n) public information relating to the business, operations, financial performance and stock trading history of publicly traded companies and income trusts considered by us to be relevant;
- (o) analyses of trading yields and other performance metrics considered relevant as benchmarks for the Units and the Newco Shares;
- (p) published research and industry reports in respect of the Fund and for the pulp industry;
- (q) representations contained in a certificate addressed to us from senior officers of the General Partner as to the completeness and accuracy of the information upon which the Fairness Opinion is based (the "Representation Certificate"); and
- (r) such other information, analyses and discussions as were considered necessary or appropriate in the circumstances.

Raymond James has been granted full, unrestricted access by the General Partner to its senior management group, and was, to the best of our knowledge, provided with all material information.

This Fairness Opinion has been prepared in accordance with the Disclosure Standards for Formal Valuations and Fairness Opinions of the Investment Dealers Association of Canada but the Association has not been involved in the preparation or review of this Fairness Opinion.

### **Assumptions and Limitations**

We have relied upon and have assumed the completeness, accuracy and fair presentation of all financial and other information, data, advice, opinions and representations pertaining to the Fund, the Partnership and its subsidiaries obtained by us from public sources, contained in the Arrangement Agreement, contained in the draft Circular, provided to us by the Fund, or their advisors or consultants, or otherwise provided to us pursuant to our engagement. Our Fairness Opinion is conditional upon such completeness, accuracy and fair presentation. Subject to the exercise of our professional judgment and except as expressly described herein, we have not attempted to verify independently the accuracy or completeness of any such information, data, advice, opinions, representations, budgets, estimates or forecasts.

The Arrangement is subject to a number of conditions outside the control of the Fund and we have assumed all conditions precedent to the completion of the Arrangement can be satisfied in due course and all consents, permissions, exemptions or orders of relevant regulatory authorities will be obtained, without adverse conditions or qualification. In rendering this Fairness Opinion, we express no view as to the

likelihood that the conditions with respect to the Arrangement will be satisfied or waived or that the Arrangement will be implemented within the time frame indicated in the draft Circular. This Fairness Opinion does not constitute a recommendation as to how any Unitholder should vote with respect to the proposed Arrangement or any other matter.

Senior management of the General Partner have represented to us in the Representation Certificate, dated as of the date hereof, among other things, that the information, data, opinions and other materials (the "Information") provided to us by or on behalf of the Fund was complete and correct at the dates the Information was provided to us and that there has been no material change, financial or otherwise, in the position of the Fund or the Partnership and its subsidiaries, or in its assets, liabilities (contingent or otherwise), business, operations or affairs of the Partnership which has not otherwise been disclosed to us, and there has been no change of any material fact which is of a nature so as to render the Information untrue or misleading in any material respect as of the date hereof. With respect to any financial forecasts and projections provided to Raymond James and used in our analyses, we have assumed that they have been reasonably prepared and reflect the best currently available estimates and judgments of the senior management of the Fund as to the matters covered thereby, and in rendering our Fairness Opinion we express no view as to the reasonableness of such forecasts or projections or the assumptions on which they are based.

In arriving at our Fairness Opinion, in addition to the facts and conclusions contained in the materials, information, documents, reports, representations and opinions referred to above, we have assumed, among other things that the representations and warranties provided in the Representation Certificate are accurate in all material respects.

We are not legal, tax or accounting experts and we express no opinion concerning any legal, tax or accounting matters concerning the Arrangement.

This Fairness Opinion is rendered on the basis of securities markets, economic, financial and general business conditions and the Income Trust Tax Regime prevailing as at the date hereof and the condition and prospects, financial and otherwise, of the Fund as reflected in the Information and documents reviewed by us and as represented to us in our discussions with management of the Partnership and pursuant to the Representation Certificate. The Fairness Opinion is given as of the date hereof and Raymond James disclaims any undertaking or obligation to advise any person of any change in any fact or matter affecting the Fairness Opinion which may come or be brought to Raymond James' attention after the date hereof. Without limiting the foregoing, in the event that there is any material change in any fact or matter affecting the Fairness Opinion after the date hereof, Raymond James reserves the right to change, modify or withdraw the Fairness Opinion.

The Fairness Opinion has been provided for the use of the Board and may not be used by any other person or relied upon by any other person other than the Board without the express prior written consent of Raymond James; provided that Raymond James hereby consents to the Fairness Opinion, and references to it, being included in the Circular, subject to our satisfactory review of the Circular disclosure prior to distribution to the Unitholders.

Raymond James believes that its analysis must be considered as a whole and that selecting portions of the analysis of the factors considered by it, without considering all factors and analysis together, could create a misleading view of the process underlying the Fairness Opinion. The preparation of a fairness opinion is a complex process and is not necessarily susceptible to partial analysis or summary description. Any attempt to do so could lead to undue emphasis on any particular factor or analysis.

**Conclusion**

Based upon our analysis and subject to the foregoing, Raymond James is of the opinion that, as of the date hereof, the consideration to be received by Unitholders pursuant to the Arrangement is fair, from a financial point of view, to the Unitholders.

Yours truly,

*Raymond James Ltd*

**RAYMOND JAMES LTD.**

**APPENDIX "E"**  
**INFORMATION CONCERNING CANFOR PULP PRODUCTS INC.**

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## NOTICE TO READER

**As at the date hereof, Newco has not carried on any active business other than executing the Arrangement Agreement. Unless otherwise noted, the disclosure in this Appendix has been prepared assuming that the Arrangement has been effected. Newco will be the publicly listed corporation resulting from the reorganization of the Fund's income trust structure into a public corporation pursuant to the Arrangement. Unless otherwise defined herein, all capitalized words and phrases used in this Appendix have the meaning given to such words and phrases in the "Glossary of Terms" or elsewhere in the Information Circular.**

## FORWARD LOOKING STATEMENTS

The Arrangement is a proposed transaction. Throughout this Appendix, descriptions of the effect of the Arrangement which are made on a prospective basis (using words such as "will") are made as if the Arrangement is completed. The completion of the Arrangement is subject to a number of conditions which are described in the Information Circular and the Arrangement Agreement (which is attached as Appendix "C" to this Information Circular) and there is no assurance that it will be completed or, assuming it is completed, as to the timing of completion.

This Appendix includes forward-looking statements within the meaning of applicable securities laws. These statements relate to analysis and other information that are based on forecasts of future results or events and estimates of amounts not yet determinable. The statements may involve, but are not limited to, comments relating to strategies, expectations, planned operations or future actions.

These forward-looking statements are identified by the use of terms and phrases such as "anticipate", "believe", "could", "estimate", "expect", "intend", "may", "plan", "predict", "project", "will", "would", and similar terms and phrases, including references to assumptions.

Forward-looking statements, by their nature, are based on assumptions and are subject to important risks and uncertainties. Any forecasts or forward-looking predictions or statements cannot be relied upon due to, amongst other things, changing external events and general uncertainties of the business and its corporate structure. Results indicated in forward-looking statements may differ materially from actual results for a number of reasons, including without limitation, the factors discussed under "Risk Factors" in this Appendix, as well as the other factors identified throughout this Information Circular or in the documents incorporated by reference herein.

Forward-looking statements in this Appendix include (but are not limited to) statements relating to the structure, business, financial and tax position, governance, dividend policy, shareholders, and outlook of Newco, and the risks to which Newco will be subject, in the event the Arrangement is completed.

Various assumptions are typically applied in drawing conclusions or making the forecasts or projections set out in forward-looking statements. Those assumptions and factors are based on information currently available to the Fund, including information obtained from the General Partner and third party analysts and other third party sources. In some instances, material assumptions and factors are presented elsewhere in this Information Circular in connection with the forward-looking statements. You are cautioned that the following list of material factors and assumptions is not exhaustive. Specific material facts and assumptions include, but are not limited to:

- the performance of the business of the Partnership, including current business and economic trends;
- the ability of the Partnership to market its products and services successfully to existing and new customers; and
- currency, exchange and interest rates.

See "Risk Factors" in this Appendix.

New risk factors may arise from time to time and it is not possible for the Trustees to predict all of those risk factors or the extent to which any factor or combination of factors may cause actual results, performance and achievements of the Fund and Partnership to be materially different from those contained in forward-looking statements. The forward-looking statements are based on current information and expectations and the Fund and Partnership as at the date of this Information Circular, and are subject to change after such date. The Fund assumes no obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise, except as required by applicable law.



## CORPORATE STRUCTURE

### Name, Address and Incorporation

Newco was incorporated on March 12, 2010 pursuant to the provisions of the Act and is a wholly-owned Subsidiary of the Fund. Once the Arrangement has been effected, Newco will hold all of the issued and outstanding Fund Units. The principal and head office of Newco is located at 1700 West 75th Avenue, Vancouver, British Columbia, Canada, V6P 6G2.

On the Effective Date, Newco will become a reporting issuer in all Canadian jurisdictions and will become subject to the informational reporting requirements under the securities laws of such jurisdictions as a result of the Arrangement.

### Intercorporate Relationship

As at the date hereof, Newco does not have any Subsidiaries.

The following table provides the name, the percentage of voting securities to be owned by Newco and the jurisdiction of incorporation, continuance or formation of Newco's Subsidiaries, direct and indirect, after giving effect to the Arrangement. For simplification purposes, this table omits the Subsidiaries of the Partnership.

	<b>Percentage of Voting Securities (directly or indirectly)</b>	<b>Jurisdiction of Incorporation / Formation</b>
Canfor Pulp Income Fund	100%	Ontario Trust
Canfor Pulp Trust	100%	Ontario Trust
Canfor Pulp Holding Inc.	49.8%	CBCA Corporation
Canfor Pulp Limited Partnership	49.8%	Manitoba Limited Partnership

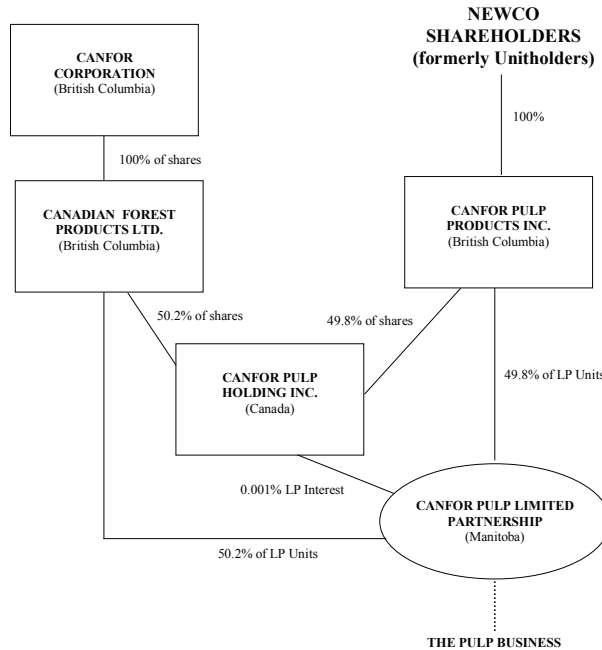
In the event the Arrangement is completed, it is intended that the Fund and the Trust will be wound-up, with the result that Newco will become the direct holder of the 49.8% interests in the Partnership and the General Partner currently held (indirectly) by the Fund.

**Organizational Structure of Newco**

Upon completion of the Arrangement, the Unitholders will be the sole shareholders of Newco and Newco will own all of the issued and outstanding Fund Units. Upon the completion of the Arrangement, an aggregate of approximately 35,493,505 Newco Shares will be issued and outstanding, assuming that the same number of Fund Units are outstanding on the Effective Date as were outstanding on March 16, 2010 and that no Dissent Rights are exercised.

In the event the Arrangement is completed, the Fund intends that the Fund and the Trust will be wound-up, with the result that Newco will become the direct holder of the 49.8% interests in the Partnership and the General Partner currently held (indirectly) by the Fund.

The following diagram illustrates, on a simplified basis, the organizational structure of Newco and the Partnership (including jurisdiction of establishment/incorporation of the various entities) immediately following the completion of the Arrangement and the subsequent winding-up of the Fund and the Trust.



**GENERAL DEVELOPMENT OF THE BUSINESS**

Newco has not carried on any active business since its incorporation other than executing the Arrangement Agreement. If approved, the Arrangement will result in the reorganization of the Fund's income trust structure into a dividend paying public corporation, "Canfor Pulp Products Inc.", that will own, directly or indirectly, all of the Fund Units. Upon completion of the Arrangement, the former Unitholders will become Newco Shareholders. For a detailed description of the historical development of the business of the Fund, see "General Development of the Business" in the AIF. For a description of the business to be carried on by Newco following completion of the Arrangement, see "Description of the Business" in this Appendix.

Newco will become a reporting issuer in all Canadian jurisdictions and will become subject to the informational reporting requirements under the securities laws of such jurisdictions as a result of the Arrangement.

The TSX has conditionally approved the substitutional listing of the Newco Shares, subject to Newco fulfilling the requirements of such exchange as soon as possible after the Effective Time. After the Effective Date, Newco will be posted for trading on the TSX under the symbol "CFX".

**DESCRIPTION OF THE BUSINESS**

If approved, the Arrangement will result in the reorganization of the Fund's income trust structure into a dividend paying public corporation, "Newco", that will own, directly or indirectly, all of the Fund Units.

At the Effective Time, the board of directors of Newco will be comprised of the Trustees immediately prior to the Effective Time. Accordingly, it is currently expected that, at the Effective Time, the board of directors of Newco will be comprised of Stan E. Bracken-Horrocks, Donald W. Campbell and Charles J. Jago. It is also expected that, at the Effective Time, Joe Nemeth, Vice President, Sales

& Marketing of the General Partner, will be President and Chief Executive Officer of Newco and Terry D. Hodgins, Chief Financial Officer and Secretary of the General Partner, will be the Chief Financial Officer and Secretary of Newco. For a detailed description of the Fund's business, which will continue to be carried on by Newco if the Arrangement is implemented, see the sections entitled and "Description of Pulp Industry", "Description of Paper Industry", "The Pulp and Paper Business of the Partnership", "Business of the Fund" and "Business of the Trust" in the AIF. The Arrangement is not expected to affect the business of the Partnership.

In the event the Arrangement is completed, the Fund intends that the Fund and the Trust will be wound-up.

It is a condition precedent to the Arrangement becoming effective that certain organizational documents to which the Fund and/or the Trust is a party and contractual relationships between the Fund and the Partnership, Canfor and/or CFP be amended, modified or supplemented, if and to the extent necessary or, in the reasonable opinion of the Fund and Newco, desirable to facilitate the transactions contemplated under the Arrangement and the subsequent wind-up of the Fund and the Trust. Such amendments are not expected to affect the business of the Partnership.

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

As at the date of the Information Circular, Newco has not conducted any business or operations, other than to execute the Arrangement Agreement, and has issued one (1) common share to the Fund in connection with its incorporation and organization.

In the event the Arrangement is completed, Newco will own, directly or indirectly, all of the Fund Units and the business of the Fund will continue to be carried on as before the Effective Date and Newco's financial position, risks and outlook will be substantially the same as those outlined in the Management's Discussion and Analysis incorporated by reference in the Information Circular.

Readers are encouraged to review the Management's Discussion and Analysis which has been filed on SEDAR at [www.sedar.com](http://www.sedar.com) and which are incorporated by reference in the Information Circular.

### **DESCRIPTION OF SHARE CAPITAL**

The authorized capital of Newco consists of an unlimited number of common shares. The following is a summary of the rights, privileges, restrictions and conditions attaching to the securities of Newco which will, upon completion of the Arrangement, comprise the share capital of Newco.

Holders of Newco Shares will be entitled to one vote per share at meetings of shareholders of Newco, to receive dividends if, as and when declared by the board of directors of Newco and to receive pro rata the remaining property and assets of Newco upon its dissolution or winding-up, subject to the rights of shares having priority over the Newco Shares.

Under applicable U.S. securities laws, Newco cannot distribute Newco Shares to U.S. Unitholders who are not Qualified Purchasers. In addition, the 1940 Act will impose restrictions on the ownership of Newco Shares. In order to ensure compliance with the 1940 Act, the articles of Newco prohibit Newco Shares being held by or for the benefit of a person who resides, or appears to the directors to reside, in the U.S. (a "**U.S. Person**") and who is not a Qualified Purchaser (the "**U.S. Qualified Purchaser Restriction**"). The articles of Newco also permit Newco to refuse to register a transfer of a Newco Share if the directors believe that the transfer would result in a contravention of the U.S. Qualified Purchaser Restriction. In addition, if Newco becomes aware that the U.S. Qualified Purchaser Restriction is, or may be, contravened, then Newco may give notice (or cause notice to be given) to any Relevant Holder requiring it to (a) provide a declaration in form and content satisfactory to Newco that (i) the person is not a U.S. Person and does not hold Newco Shares for the benefit of any person who resides in the U.S. and is not a Qualified Purchaser, or (ii) if the person is a U.S. Person, that the person is a Qualified Purchaser and does not hold shares of the Company for the benefit of any person who is a U.S. Person and who is not a U.S. Qualified Purchaser or (b) sell its Newco Shares. If such declaration is not provided or if Newco is not satisfied that such Relevant Holder has sold all of the Newco Shares held by such person within the period specified in the notice, then Newco may, to the extent permitted by the Act, arrange for the sale of such shares on behalf of such holder.

## PRO FORMA CONSOLIDATED CAPITALIZATION

The following table sets forth the unaudited pro forma consolidated capitalization of Newco as at March 16, 2010, both before and after giving effect to the completion of the Arrangement.

<b>Designation (Authorization)</b>	<b>As at March 16, 2010 before giving effect to the Arrangement</b>	<b>As at March 16, 2010 after giving effect to the Arrangement</b>
		(amounts in \$000s)
Common Shares (unlimited)	\$1 (one share)	\$299,351 (35,493,505 shares) <sup>(1)</sup>

(1) Assumes that (i) the same number of Fund Units are outstanding on the Effective Date as were outstanding on March 16, 2010 and (ii) no Dissent Rights are exercised.

See "Audited Balance Sheet of Canfor Pulp Products Inc. as at March 16, 2010" attached as Schedule A to this Appendix.

## DIVIDEND RECORD AND POLICY

Newco has not declared or paid any dividends since its incorporation and will not declare any dividends prior to completion of the Arrangement.

Subject to and following the Arrangement becoming effective, the Trustees of the Fund, who are expected to constitute the board of directors of Newco at the Effective Time, intend to establish as a dividend policy for Newco that it will distribute, as quarterly dividends on the Newco Shares, substantially all of the cash distributions received from the Partnership, less estimated cash amounts required for the payment of expenses and other obligations and any tax liability of Newco. The Trustees do not intend to accumulate material cash balances in Newco. See the section of the AIF entitled "Distributions – Distributions of the Partnership" for a discussion of the distribution policy of the Partnership.

It is expected that any dividends paid on Newco Shares will be designated "eligible dividends" for Canadian income tax purposes to the extent permitted by the Tax Act such that certain shareholders would benefit from the enhanced gross-up and dividend tax credit mechanism under the Tax Act.

Notwithstanding the foregoing, the amount of any dividends payable by Newco will be at the discretion of the board of directors of Newco from time to time and dependent upon distributions by the Partnership, financial requirements of Newco, the satisfaction of solvency tests imposed by the Act for the declaration of dividends and other conditions existing from time to time. See "Risk Factors – Risks Related to Newco" in this Appendix "E".

## PRIOR SALES

Prior to the Effective Date, Newco will not proceed to the issuance of any securities from its share capital. The Newco Shares will be issued to the Unitholders on the Effective Date in consideration for the transfer of their Fund Units to Newco as part of the Arrangement, on the basis of one Newco Share for each Fund Unit so transferred.

## PRINCIPAL SHAREHOLDERS

As of the date hereof, the sole shareholder of Newco is the Fund which owns one (1) common share in the share capital of Newco. Immediately following completion of the Arrangement, to the best of knowledge of Trustees of the Fund as of March 16, 2010, it is anticipated that no Person will beneficially own, directly or indirectly, or exercise control or direction over, securities carrying more than 10% of the voting rights attached to any class of voting securities of Newco other than:

1. CDS & Co. will be the sole registered shareholder of the Newco Shares. The Fund has no knowledge as to the other beneficial holders of the Fund Units held by CDS & Co. which are 10% or more of the outstanding Fund Units.
2. Based on their respective holdings of Fund Units as set out in public records as at March 16, 2010, Letko, Brosseau & Associates Inc. will have control over 6,368,076 Newco Shares representing 17.9% of total issued Newco Shares and Platinum Investment Corporation Pty Ltd will have control over 3,888,600 Newco Shares representing 11.0% of total issued Newco Shares, in each case, assuming that the same number of Fund Units are outstanding on the Effective Date as were outstanding on March 16, 2010 and that no Dissent Rights are exercised. Beneficial ownership is not known to the Fund.

## DIRECTORS AND EXECUTIVE OFFICERS

### Directors and Governance Structure of Newco

At the Effective Time, the board of directors of Newco will be comprised of the Trustees immediately prior to the Effective Time. Accordingly, it is currently expected that, at the Effective Time, the board of directors of Newco will be comprised of Stan E. Bracken-Horrocks, Donald W. Campbell and Charles J. Jago. The directors of Newco shall hold office from the time of their appointment until the next annual meeting of Newco Shareholders or until their respective successors have been duly elected or appointed. For detailed information on the Trustees of the Fund, who are also expected to serve as directors of Newco from the Effective Time, see "Election of Trustees " in the Information Circular.

At the Effective Time Newco will have the same passive nature as the Fund and, as a result, it is anticipated that, from the Effective Time, Newco will adopt the same corporate governance structure as that of the Fund. See the section entitled "The Arrangement – Effect of the Arrangement – Governance of Newco" in the Information Circular.

### Officers of Newco

Upon completion of the Arrangement, Joe Nemeth will be the President and Chief Executive Officer and Terry D. Hodgins will be the Chief Financial Officer and Secretary of Newco.

The following table sets out, for each of the proposed executive officers of Newco upon completion of the Arrangement, the person's name, municipality of residence, positions with Newco and principal occupations during the last five years:

<u>Name and Municipality of Residence</u>	<u>Position with Newco</u>	<u>Principal Occupation During Last Five Years</u>
Joe Nemeth (Langley, British Columbia)	President and Chief Executive Officer	Vice President Sales and Marketing of Canfor Pulp Holding Inc. since July 1, 2006; prior thereto, Vice President, Pulp & Paper Marketing of Canfor.
Terry D. Hodgins (West Vancouver, British Columbia)	Chief Financial Officer and Secretary	Chief Financial Officer and Secretary of Canfor Pulp Holding Inc. since February 18, 2008; prior thereto, Interim Chief Financial Officer and Secretary of Canfor Pulp Holding (October 24, 2007 to February 18, 2008); Consultant to Canfor Corporation in connection with the creation of the Fund and the Partnership (2006), Vice President & Treasurer of Canfor Corporation (April 2004 to December 2005) and Acting Chief Financial Officer of Canfor Corporation (December 2004 to August 2005).

Immediately after giving effect to the Arrangement, it is anticipated that the directors and proposed officers of Newco and their associates, as a group, will beneficially own, directly or indirectly, or exercise control or direction over, an aggregate of approximately 165,212 Newco Shares representing approximately 0.47% of the outstanding Newco Shares (assuming that the same number of Fund Units are outstanding on the Effective Date as were outstanding on March 16, 2010 and that no Dissent Rights are exercised).

## CEASE TRADE ORDERS, BANKRUPTCIES, PENALTIES OR SANCTIONS

### Corporate Cease Trade Orders or Bankruptcies

To the knowledge of the Fund, other than as described in the Information Circular under the section entitled "Election of Trustees", none of the directors, officers or proposed directors or officers of Newco (a) are, as at the date hereof, or have been, within 10 years before the date of this Information Circular, a director, chief executive officer or chief financial officer of any company that, (i) was subject to a cease trade order, an order similar to a cease trade order or an order that denied the relevant company access to any exemption under securities legislation that was in effect for a period of more than 30 consecutive days (an "Order") that was issued while such person was acting in the capacity as director, chief executive officer or chief financial officer; or (ii) was subject to an Order that was issued after that person ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer, (b) are, as the date of this Information Circular, or have been within 10 years before the date of this Information Circular, a director or executive officer of any company that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets, or (c) have, within the 10 years before the date of this Information Circular, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of that person.

## **Penalties or Sanctions**

To the knowledge of the Fund, none of the proposed directors or officers of Newco, nor any personal holding company owned or controlled by any of them, (i) has been subject to any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority, or (ii) has been subject to any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

## **Personal Bankruptcies**

To the knowledge of the Fund, in the last ten years, none of the proposed directors or officers of Newco nor any personal holding company owned or controlled by any of them, has become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, has become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold his or her assets or the assets of his or her holding company.

## **CONFLICTS OF INTEREST**

Except as disclosed in the Information Circular or in this Appendix, no director or officer of Newco, and no proposed director or proposed senior officer of Newco or other insider of Newco, nor any associate or affiliate of the foregoing persons, has any existing or potential material conflict of interest with Newco or any of its Subsidiaries.

## **COMPENSATION OF EXECUTIVE OFFICERS AND DIRECTORS**

To date, Newco has not carried on any active business and has not completed a fiscal year of operations. No compensation has been paid by Newco to its executive officers or directors and none will be paid until after the Arrangement is completed. The directors and proposed executive officers of Newco are currently, and will be upon completion of the Arrangement, compensated by the General Partner. See the sections entitled "Summary Compensation Table" and "Compensation of Trustees and the Directors of the General Partner" in the Information Circular.

## **RISK FACTORS**

Risk factors related to the Fund and the Partnership and their respective Subsidiaries and the industry in which they operate will continue to apply to Newco after the Effective Date and will not be affected by the Arrangement.

In the event the Arrangement is completed, the business and operations of, and an investment in, Newco will be subject to various risks as set forth in the Information Circular and below. The following information is a summary only of certain risk factors which will be applicable to Newco in the event the Arrangement becomes effective and is qualified in its entirety by reference to, and must be read in conjunction with, the detailed information appearing in the Information Circular or in any other documents incorporated by reference therein.

### **Risks Related to Newco**

#### *Conditions Precedent and Required Regulatory and Third Party Approvals*

The completion of the Arrangement in the form contemplated by the Plan of Arrangement is subject to a number of conditions precedent, some of which are outside the control of the Fund, including, without limitation, receipt of Unitholder approval at the Meeting, regulatory approvals, approval by the TSX of the substitutional listing of the Newco Shares to be issued pursuant to the Arrangement and the Final Order. There can be no certainty, nor can the Fund provide any assurance, that these conditions will be satisfied or, if satisfied, when they will be satisfied.

Failure to obtain the Final Order on terms acceptable to the Fund and Newco would likely result in the decision being made not to proceed with the Arrangement. If any of the required regulatory and third party approvals cannot be obtained on terms satisfactory to the Fund and Newco or at all, the Plan of Arrangement may have to be amended in order to mitigate against the negative consequence of the failure to obtain any such approval, and accordingly, the benefits available to Unitholders resulting from the Arrangement may be reduced. Alternatively, in the event that the Plan of Arrangement cannot be amended so as to mitigate against the negative consequences of the failure to obtain a required regulatory or third party approval, the Arrangement may not proceed at all. If the Arrangement is not completed, the market price of the Units may be adversely affected. See "The Arrangement – Procedure for the Arrangement Becoming Effective" in the Information Circular.

#### *Control of the Partnership*

Pursuant to the Shareholders' Agreement, CFP is entitled to appoint the majority of directors to the board of the General Partner for so long as it owns not less than 30% of the outstanding LP Units. See the section of the AIF entitled "Acquisition, Liquidity, Support and Security Holder Agreements—Shareholders' Agreement" for a description of Canfor's board representation rights.

For so long as CFP holds not less than a 20% interest in the Partnership, CFP's consent will be required in order to approve certain significant transactions of the Partnership. In addition, under the Exchange Agreement, the Fund and the Trust will agree not to take certain actions without the prior approval of CFP. It is expected that the Exchange Agreement will be amended to provide CFP similar rights with respect to Newco. As a result of these rights, CFP will exercise significant influence or control over transactions submitted to the board of the General Partner and to the board of directors of Newco. Canfor may have sufficient voting power to prevent a change of control of the Partnership. The Fund has, and, on completion of the Arrangement, Newco will have, an indirect minority interest in the Partnership and minority representation on the board of the General Partner and, therefore, has influence but not control over transactions of the Partnership.

The interests of Canfor and/or CFP may conflict with those of the holders of Newco Shares.

#### *Dependence on the Partnership*

Newco will be entirely dependent on the operations and assets of the Partnership. The ability of Newco to pay dividends on Newco Shares will be dependent on, among other things, the Partnership making cash distributions. The ability of Newco and the Partnership and its Subsidiaries to make cash distributions or other payments or advances is subject to applicable laws and regulations and contractual restrictions contained in the instruments governing any indebtedness of those entities, including restrictive covenants in the Credit Facilities.

#### *Uncertainty of Dividends*

The ability of Newco to pay dividends and, if any, the level thereof, in the future is uncertain as it depends upon the operating cash flows generated by the Partnership and its Subsidiaries, the financial requirements of Newco, the General Partner and the Partnership and their respective Subsidiaries, the satisfaction of solvency tests on the payment of dividends or other distributions pursuant to the Act and other applicable laws and regulations, and contractual restrictions contained in the instruments governing any indebtedness of those entities, including restrictive covenants in the Credit Facilities.

#### *Dilution of Newco Shareholders*

Newco will be authorized to issue an unlimited number of Newco Shares for that consideration and on those terms and conditions as shall be established by the board of directors of Newco without the approval of any Newco Shareholders. The Newco Shareholders will have no pre-emptive rights in connection with such further issues. It is expected that the terms of the Class B Exchangeable LP Units and the Exchange Agreement will be amended so that the Class B Exchangeable LP Units will be exchangeable for Newco Shares instead of Fund Units after the Effective Time. If such amendments are made, additional Newco Shares will be issuable by Newco in connection with the conversion of the Class B Exchangeable LP Units by CFP into Fund Units pursuant to the conversion rights attached thereto.

#### *Leverage and Restrictive Covenants in Agreements Relating to Indebtedness*

The ability of Newco, the Fund, the Trust and the Partnership and its Subsidiaries to make distributions, pay dividends or make other payments or advances are subject to applicable laws and contractual restrictions contained in the instruments governing any indebtedness of those entities (including the Credit Facilities). The degree to which the Partnership is leveraged can have important consequences to the holders of Newco Shares including: the Partnership's ability to obtain additional financing for working capital could be affected, capital expenditures or acquisitions in the future may be limited; a significant portion of the Partnership's cash flow from operations may be dedicated to the payment of the principal of and interest on its indebtedness, thereby reducing funds available for future operations; certain borrowings will be at variable rates of interest, which exposes the Partnership to the risk of increased interest rates; and the Partnership may be more vulnerable to economic downturns and be limited in its ability to withstand competitor pressures. These factors may increase the sensitivity of Adjusted Distributable Cash to interest rate variations.

The Credit Facilities contain restrictive covenants that limit the discretion of the Partnership's management with respect to certain business matters. These covenants place significant restrictions on, among other things, the ability of the Partnership to create liens or other encumbrances, to pay distributions or make certain other payments, investments, loans, and guarantees and to sell or otherwise dispose of assets and merge or consolidate with another entity. In addition, the Credit Facilities contain financial covenants that require the Partnership to meet certain financial ratios and financial condition tests. A failure by the Partnership to comply with the obligations in the Credit Facilities could result in a default which, if not cured or waived, could result in a termination of distributions by the Partnership and require accelerated repayment of the relevant indebtedness. If the repayment of indebtedness under the Credit Facilities were to be accelerated, there can be no assurance that the assets of the Partnership would be sufficient to repay in full that indebtedness. In addition, the Bank Facility will mature in 2011, the Hydro LOC Facility in 2011, and the Term Facility will mature in 2013. The Partnership will then be required to refinance this indebtedness or seek alternative financing arrangements. There can be no assurance that the Credit Facilities will be able to be refinanced or refinanced on acceptable terms or that future borrowings or equity financings will be available to the Partnership, or available on acceptable terms, in an amount sufficient to fund the Partnership's needs. This could, in turn, have a material adverse effect on the business, financial condition, and results of operations of the Partnership and the ability of Newco to pay dividends in respect of Newco Shares.

Neither Newco, the Fund nor any of their respective Subsidiaries have received any type of stability rating, including any provisional rating, from any approved rating organizations for their outstanding securities.



### *Structural Subordination of the Newco Shares*

In the event of a bankruptcy, liquidation, or reorganization of the Partnership, holders of its indebtedness and its trade creditors will generally be entitled to payment of their claims from the assets of the Partnership before any assets are made available for distribution to Newco. The units in the Partnership are junior in priority to the debt outstanding under the Credit Facilities and other liabilities (including trade payables) of the Partnership. The Partnership will generate all of Newco's cash available for distribution and will hold all of Newco's consolidated assets.

### *Future Sales of Newco Shares by Canfor*

Canfor (indirectly) holds Class B Exchangeable LP Units representing approximately 50.2% of the outstanding Fund Units on a fully-diluted basis. Canfor has also been granted certain registration rights by the Fund under the Exchange Agreement. See the section of the AIF entitled "Acquisition, Liquidity, Support and Security Holder Agreements — Exchange Agreement" for further details. It is expected that the terms of the Class B Exchangeable LP Units and the Exchange Agreement will be amended so that the Class B Exchangeable LP Units will be exchangeable for Newco Shares instead of Fund Units. Assuming such amendments are implemented, Canfor will (indirectly) hold Class B Exchangeable LP Units representing approximately 50.2% of the Newco Shares outstanding at the Effective Time (assuming no Dissent Rights are exercised). If Canfor sells substantial amounts of Newco Shares in the public market, the market price of the Newco Shares could fall. The perception among the public that these net sales will occur could also contribute to a decline in the market price of the Newco Shares.

### *Limitation on Potential Growth*

The payout by the Partnership of substantially all of its operating cash flow will make additional capital and operating expenditures dependent on increased cash flow or additional financing in the future. Lack of those funds could limit the future growth of the Partnership and its cash flow.

## **Risks Relating to the Pulp Business and the Industry**

### *Cyclicality of Product Prices*

The Partnership's financial performance is dependent upon the selling prices of its pulp and paper products, which have fluctuated significantly in the past. The markets for these products are highly cyclical and characterized by (i) periods of excess product supply due to industry capacity additions, increased production and other factors; and (ii) periods of insufficient demand due to weak general economic conditions. The economic climate of each region where the Partnership's products are sold has a significant impact upon the demand, and, therefore, the prices, for pulp and paper. In particular, the list price of pulp has historically been unpredictable. For example, during the last 10 years, the average annual Northern Europe list price for NBSK Pulp has ranged from a low of US\$460 per ADMT in 2002 to a high of US\$900 per ADMT in 2008.

### *Currency Exchange Risk*

The Partnership's operating results are sensitive to fluctuations in the exchange rate of the Canadian dollar to the US dollar, as prices for the Partnership's products are denominated in US dollars or linked to prices quoted in US dollars. Therefore, an increase in the value of the Canadian dollar relative to the US dollar reduces the amount of revenue in Canadian dollar terms realized by the Partnership from sales made in US dollars which, in turn, reduces the Partnership's operating margin and the cash flow available to fund distributions.

### *Dependence on Canfor*

In 2009, approximately 63% of the total fibre used by the Partnership was derived from the Fibre Supply Agreement with Canfor. The Partnership's financial results could be materially adversely affected if Canfor is unable to provide the current volume of wood chips as a result of mill closures (whether temporary or permanent) or as a result of financial difficulties experienced by Canfor. See the section of the AIF entitled "The Pulp and Paper Business of the Partnership - Fibre Supply - Fibre Supply Agreement" for details of the Fibre Supply Agreement.

In addition, Canfor provides certain services to the Partnership under a Partnership Services Agreement. In the event that the Partnership is unable to derive those services from Canfor (for whatever reason), certain of those services would be difficult and/or more costly to obtain from third parties. Any reductions or loss of such services could have a material adverse effect on the Partnership's business, assets, financial condition, results of operations, cash flows, liquidity, and/or Adjusted Distributable Cash. See the section of the AIF entitled "Acquisition, Liquidity, Support and Security Holder Agreements - Partnership Services Agreement" for details of the Partnership Services Agreement.

### *Raw Material Costs*

The principal raw material utilized by the Partnership in its manufacturing operations is wood chips. The Partnership's Fibre Supply Agreement with Canfor contains a pricing formula that currently results in the Partnership paying market prices for wood chips and contains provisions to adjust the pricing formula to reflect market conditions. Typically, wood chips are purchased in highly competitive, price-sensitive markets and these markets have historically exhibited price and demand cyclicality. Prices for wood chips



are not within the Partnership's control and are driven by market demand, product availability, environmental restrictions, logging regulations, the imposition of fees or other restrictions on exports of lumber into the US and other matters. In addition, because the price paid for wood chips includes the cost of transporting the chips from the mills to the Partnership's production facilities, the cost of the wood chips is affected by the price of fuel, vehicle availability, and road and weather conditions. The Partnership is not always able to increase the selling prices of its products in response to increases in raw material costs. An inability to pass increased costs through to customers could have a material adverse effect on the Partnership's financial condition, results of operation and cash flow.

#### *Competitive Markets*

The Partnership's products are sold primarily in North America, Europe, and Asia. The markets for the Partnership's products are highly competitive on a global basis, with a number of major companies competing in each market with no company holding a dominant position. In the pulp industry, a large number of companies produce products that are reasonably standardized; therefore, a significant traditional basis for competition has been price. Other competitive factors are quality of product, reliability of supply and customer service. The Partnership's competitive position is influenced by the availability, quality, and cost of raw materials, energy and labour costs, free access to markets, currency exchange rates, plant deficiencies, and productivity in relation to its competitors.

#### *Dependence on Key Customers*

In 2009, the Partnership's top three customers accounted for approximately 20% of its pulp sales. The Partnership is therefore dependant on these customers. In the event that the Partnership cannot maintain these customers or the demand from these customers is diminished for any reason in the future, there is a risk that the Partnership would be forced to find alternative markets in which to sell its pulp, which in turn, could result in lower prices or increased distribution costs thereby adversely affecting its sales margins and Adjusted Distributable Cash.

#### *Increased Production Capacity*

The Partnership currently faces substantial competition in the pulp industry and may face increased competition in the years to come if new manufacturing facilities are built. In addition, pulp capacity is constantly increasing as a result of improvements to existing mills. If increases in pulp production capacity exceed increases in pulp demand, selling prices for pulp could decline and adversely affect the Partnership's business, financial condition, results of operation and cash flows. In periods of excess capacity or reduced demand, which are characterized by lower pulp prices, the Partnership may not be able to compete with competitors who have greater financial resources and who are better able to weather a prolonged decline in prices.

#### *Obligations to BC Hydro*

Under the amended Cogeneration Agreement and the Electricity Purchase Agreement (EPA) with BC Hydro, if the Cogeneration Project generates less than 338 GWh in any year, BC Hydro is entitled to be reimbursed for the shortfall by an amount equal to the average annual price paid for all energy exported through the EPA.

Under the agreement, the Partnership is required to post a standby letter of credit as security in annually decreasing amounts as the minimum required amount of electricity is generated.

As of December 31, 2009, the Partnership had no repayment obligation under the terms of the agreement and a standby letter of credit in the amount of \$16.0 million has been issued to BC Hydro as security for future power generation commitments. This standby letter of credit is covered by a separate credit facility, the Hydro LOC Facility.

#### *Maintenance Obligations and Facility Disruptions*

The Partnership's manufacturing processes are vulnerable to operational problems that can impair the Partnership's ability to manufacture its products. The Partnership's facilities contain complex and sophisticated machines that are used in its manufacturing processes. The Partnership could experience a breakdown in any of its machines, or other important equipment, and from time to time the Partnership schedules planned and unplanned outages to conduct maintenance that cannot be performed safely or efficiently during operations. Such disruptions could cause significant loss of production, which could have a material adverse effect on the Partnership's business, financial condition, and operating results.

In addition, one or more of the Partnership's facilities could fully or partially cease operation unexpectedly due to a number of other events including, but not limited to: prolonged power failures; a chemical spill or release; explosion of a boiler; disruptions in transportation infrastructure (including roads, bridges, railroad tracks and tunnels); fires, floods, earthquakes or other catastrophes; terrorism or threats of terrorism.

#### *Governmental Regulation*

The Partnership is subject to a wide range of general and industry-specific environmental, health and safety and other laws and regulations imposed by federal, provincial and local authorities, including those governing the use, storage, handling, generation, treatment, emission, release, discharge and disposal of certain hazardous materials and wastes, the remediation of contaminated soil and ground water and the health and safety of employees. If the Partnership is unable to extend or renew a material approval,

licence or permit required by such laws, or if there is a delay in renewing any material approval, licence, or permit, the Partnership's business, financial condition, results of operations and cash flows could be materially adversely affected. The process of obtaining certain required approvals, including the completion of any necessary environmental impact assessments, can be lengthy, subject to public input, controversial and expensive. The Partnership's failure to comply with applicable environmental, health and safety regulations, including permits relating thereto, could result in civil or criminal fines or penalties or enforcement actions, including regulatory or judicial orders enjoining or curtailing operations or requiring corrective measures, installation of equipment or remedial actions, any of which could result in significant expenditures or reduce results of operations. The Partnership believes that it is in substantial compliance with all applicable environmental, health and safety laws and regulations and the Partnership regularly incurs capital and operating expenditures to maintain such compliance. However, future events such as any changes in these laws and regulations or any change in their interpretation or enforcement, or the discovery of currently unknown conditions, may give rise to additional expenditures or liabilities.

#### *Capital Requirements*

The pulp and paper industry is capital intensive, and the Partnership regularly incurs capital expenditures to expand its operations, maintain its equipment, increase its operating efficiency, and comply with environmental laws. The Partnership anticipates available cash resources and cash generated from operations will be sufficient to fund its operating needs and capital expenditures. However, if it requires additional funds, it may not be able to obtain them on favourable terms, or at all. In addition, the Partnership's debt service obligations reduce its available cash. If the Partnership cannot maintain or upgrade its equipment as is required or ensure environmental compliance, the Partnership could be required to cease or curtail some of its manufacturing operations, or the Partnership may become unable to manufacture products that can compete effectively in one or more of the Partnership's markets.

#### *Work Stoppages*

Any labour disruptions and any costs associated with labour disruptions at the Partnership's mills could have a material adverse effect on the Partnership's production levels and results of operations. The Partnership's collective agreements with the Communications, Energy and Paperworkers Union and the Pulp, Paper and Woodworkers of Canada have terms expiring on April 30, 2012. Any future inability to negotiate acceptable contracts could result in a strike or work stoppage by the affected workers and increased operating costs as a result of higher wages or benefits paid to unionized workers.

#### *Native Land Claims*

Canadian courts have recognized that aboriginal people may have unextinguished claims of aboriginal rights and title to lands used or occupied by their ancestors in those areas of British Columbia, constituting about 80% of the Province, where treaties have not yet been concluded. In those areas where treaties have been concluded, resource development may be affected by the exercise of treaty rights. Aboriginal rights may vary from limited rights of use for traditional purposes to a right of aboriginal title, depending upon, among other things, the nature and extent of the prior aboriginal use and condition. Much of the fibre used by the Partnership is sourced from areas that are located within areas where there are claims of aboriginal rights and title. The courts have held that the Crown has an obligation to consult aboriginal people, and accommodate their concerns, where there is a reasonable possibility that a Crown-authorized activity, such as public forest tenure, may infringe asserted aboriginal rights or title, even if those claims have not yet been proven. If the Crown has not consulted and accommodated aboriginal people as required, the courts may quash a tenure or attach conditions to the exercise of harvesting rights under the tenure that may affect the quantity of fibre that can be harvested from such tenure.

#### *Transportation Services*

The Partnership relies primarily on third parties for transportation of its products, as well as delivery of raw materials. In particular, a significant portion of the goods and raw materials the Partnership uses are transported by railroad, trucks, and ships. If any of the Partnership's third party transportation providers were to fail to deliver the goods or distribute them in a timely manner, the Partnership may be unable to sell those products at full value, or at all. Similarly, if any of those providers were to fail to deliver raw materials in a timely manner, the Partnership may be unable to manufacture its products. Any failure of a third-party transportation provider to deliver raw materials or finished products in a timely manner could harm the Partnership's reputation, negatively impact the Partnership's customer relationships, and have a material adverse effect on its financial condition and operating results.

#### *Risks Associated with Future Acquisitions*

The ability of the Partnership to pursue selective and accretive acquisitions will be dependent on management's ability to identify, acquire, and develop suitable acquisition targets in both new and existing markets but, in certain circumstances, acceptable acquisition targets might not be available. Acquisitions involve a number of risks, including the possibility that the Partnership, as successor owner, may be legally and financially responsible for liabilities of prior owners if indemnities are inapplicable or the former owner has limited assets; the possibility that the Partnership pays more than the acquired company or assets are worth; the additional expense associated with completing an acquisition and amortizing any acquired intangible assets; and the inability to successfully integrate acquired businesses into the Partnership. These risks and difficulties, if they materialize, could disrupt the Partnership's ongoing business, distract management, and otherwise have a material adverse effect on the Partnership's business, assets, financial condition, results of operations, cash flows, and/or Adjusted Distributable Cash.

### *Senior Management*

The Partnership's success depends, in part, on the efforts of its senior management. The senior management team has significant industry experience and would be difficult to replace. Members of the senior management team possess sales, marketing, engineering, manufacturing, financial, and administrative skills that are critical to the operation of the Partnership's business. Moreover, the market for qualified individuals is highly competitive, and the Partnership may not be able to attract and retain qualified personnel to replace or succeed members of senior management should the need arise. The Partnership does not maintain any key-man or similar insurance policies covering any of its senior management.

### **LEGAL PROCEEDINGS**

To the knowledge of the Trustees, there are no outstanding legal proceedings material to Newco to which Newco, the Fund, the General Partner, the Partnership or their respective Subsidiaries are a party or in respect of which any of their respective assets are subject, nor are there any such proceedings known to the Fund to be contemplated.

### **AUDITORS TRANSFER AGENT AND REGISTRAR**

#### **Auditors**

The auditors of Newco are PricewaterhouseCoopers LLP, Chartered Accountants, located at 250 Howe Street, Suite 700, Vancouver, British Columbia, Canada, V6C 3S7.

#### **Transfer Agent and Registrar**

The transfer agent and registrar for the Newco Shares will be CIBC Mellon Trust Company at its principal transfer offices in Montreal, Toronto, Vancouver, Calgary and Halifax.

### **MATERIAL CONTRACTS**

The only contract entered into by Newco that materially affects Newco, since incorporation, that can reasonably be regarded as material to a proposed investor in the Newco Shares, other than contracts entered into in the ordinary course of business, is the Arrangement Agreement. A copy of the Arrangement Agreement is attached as Appendix "C" to the Information Circular and may also be inspected at the registered office of Newco located at 17<sup>th</sup> Floor, 666 Burrard Street, Vancouver, British Columbia, Canada, V6C 2X8 during normal business hours from the date of the Information Circular until the completion of the Arrangement.

It is anticipated that, on or prior to the Effective Date, Newco will become a party to certain material agreements to which the Fund and/or the Trust are currently parties and will assume the obligations of the Fund and/or the Trust thereunder. These agreements include the Partnership Agreement, the Exchange Agreement, the Shareholders' Agreement and the Fund Support Agreement.

For a description of material contracts of the Fund, the Trust, and/or the Partnership and their respective Subsidiaries, including (without limitation) the Partnership Agreement, the Exchange Agreement, the Shareholders' Agreement and the Fund Support Agreement see the sections entitled "Acquisition, Liquidity, Support and Security Holder Agreements" and "Material Contracts" in the AIF.

**SCHEDULE "A"**  
**AUDITED BALANCE SHEET OF CANFOR PULP PRODUCTS INC.**  
**AS AT MARCH 16, 2010**

Please see attached.

March 16, 2010

**Audit Opinion**

To the Board of Directors of  
Canfor Pulp Products Inc.

We have audited the balance sheet of Canfor Pulp Products Inc. as at March 16, 2010. This financial statement is the responsibility of Canfor Pulp Products Inc.'s management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, this balance sheet presents fairly, in all material respects, the financial position of Canfor Pulp Products Inc. as at March 16, 2010 in accordance with Canadian generally accepted accounting principles.

*PricewaterhouseCoopers LLP*

Chartered Accountants  
Vancouver, BC

**CANFOR PULP PRODUCTS INC.**

**BALANCE SHEET  
AS AT MARCH 16, 2010**

	\$
<hr/>	
<b>Assets</b>	
Cash	1
<hr/>	
<b>Shareholder's equity</b>	
Capital stock (note 2)	1
<hr/>	

The accompanying notes are an integral part of this financial statement.

**CANFOR PULP PRODUCTS INC.**

**NOTES TO BALANCE SHEET  
AS AT MARCH 16, 2010**

1. INCORPORATION AND BASIS OF REPRESENTATION

Canfor Pulp Products Inc. (the "Corporation") was incorporated in British Columbia on March 12, 2010 for the purpose of participating in the Arrangement described below. This financial statement has been prepared in accordance with Canadian generally accepted accounting principles.

2. SHAREHOLDER'S EQUITY

The Corporation is authorized to issue an unlimited number of voting common shares. The common shares are without nominal or par value. The Corporation issued one common share on March 12, 2010 for cash proceeds of \$1.00. The Corporation is a wholly-owned subsidiary of Canfor Pulp Income Fund and has not carried on active business since incorporation. Canfor Pulp Income Fund, on behalf of the Corporation has incurred standard costs of incorporation and capitalization of the Corporation.

3. ARRANGEMENT AGREEMENT

On March 15, 2010, the Corporation and Canfor Pulp Income Fund entered into an arrangement agreement (the "Arrangement Agreement"). The purpose of the transactions contemplated by the Arrangement Agreement is to convert Canfor Pulp Income Fund from an income trust structure to a corporate structure (the "Arrangement"). The Arrangement will result in current Fund Unitholders of Canfor Pulp Income Fund transferring each of their units to the corporation in consideration for one common share of the Corporation.

The Arrangement is subject to a number of conditions, including the approval of the Supreme Court of British Columbia and the approval of the Fund Unitholders.

**APPENDIX "F"**  
**QUALIFIED PURCHASERS**

A "Qualified Purchaser" within the meaning of Section 2(a)(51)(A)(iv) of the 1940 Act (a "**Qualified Purchaser**") is defined as follows:

- A. A natural person who owns not less than U.S.\$5 million in investments (as defined by the SEC);
- B. A company that owns not less than U.S.\$5 million in investments and that is owned directly or indirectly by or for 2 or more natural persons who are related as siblings or spouses (or former spouses), or direct lineal descendants by birth or adoption, spouses of such person, the estates of such persons, or foundations, charitable organizations or trusts established by or for the benefit of such persons.
- C. A trust that is not covered by clause B above and that was not formed for the specific purpose of acquiring the Fund Units, as to which the trustee or other person authorized to make decisions with respect to the trust and each settlor of other person who has contributed assets to the trust is a person described in clause A or B above or clause D below; or
- D. A person, acting for its own account or the account of other qualified purchasers, who in the aggregate owns and invests on a discretionary basis, not less than U.S.\$25 million in investments.

In addition to the foregoing, a Qualified Purchaser includes the following:

- A. (i) A person or entity that is not as of the date hereof, and will not be as of the date of distribution of Newco Shares in accordance with the Arrangement, a resident of the State of California.

OR

- (ii) (A) A person or entity that is, as of the date hereof, and/or will be as of the date of distribution of Newco Shares in accordance with the Arrangement, a resident of the State of California.

AND

- (B) A person or entity that qualifies as at least one of the types of entities listed below:

1. A bank or a wholly-owned subsidiary thereof.
2. A savings and loan association or a wholly-owned subsidiary thereof.
3. A trust company or a wholly-owned subsidiary thereof.
4. An insurance company or a wholly-owned subsidiary thereof.
5. An "investment company" that is registered as such under the 1940 Act or a wholly-owned subsidiary thereof.
6. A pension or profit-sharing trust (other than a pension or profit-sharing trust of Canfor, a self-employed individual retirement plan or an individual retirement account) or a wholly-owned subsidiary thereof.
7. An organization described in Section 502(c)(3) of the Internal Revenue Code, as amended to December 29, 1981, which has total assets (including endowment, annuity and life income funds) of not less than \$5,000,000, according to its most recent audited financial statement, or a wholly-owned subsidiary thereof.
8. A corporation which has a net worth on a consolidated basis of not less than \$14,000,000, or a wholly-owned subsidiary thereof.
9. An agency or instrumentality of the United States federal government, a corporation wholly-owned by the United States federal government, a state, a city, a city and county, a county, any agency or instrumentality of a state, city, city and county or county, a state university or state college or a retirement system for the benefit of employees of any of the foregoing.

AND

- B. (i) A person or entity that is not, as of the date hereof, and will not be as of the date of distribution of Newco Shares in accordance with the Arrangement, a resident of the Commonwealth of Massachusetts.

OR

- (ii) (A) A person or entity that is, as of the date hereof, and/or will be as of the date of distribution of Newco Shares in accordance with the Arrangement, a resident of the Commonwealth of Massachusetts,
- AND
- (B) A person or entity that qualifies as at least one of the types of entities listed below:
1. A bank.
  2. A savings institution.
  3. A trust company.
  4. An insurance company.
  5. An investment company as defined in the 1940 Act.
  6. A pension or profit-sharing trust.
  7. An entity with total assets in excess of \$5 million and which is: (i) an employee benefit plan within the meaning of the Employee Retirement Income Security Act of 1974 ("ERISA"), as amended, or (ii) a self-directed employee benefit plan within the meaning of ERISA, with investment decisions made by a person that is an accredited investor as defined in a 501(a) of SEC Regulation D (17 CFR 230.501(a)).
  8. An employee benefit plan within the meaning of ERISA with investment decisions made by a plan fiduciary, as defined in Section 2(21) of ERISA, which is either a bank, savings and loan association, insurance company or registered investment adviser.
  9. A broker-dealer.
  10. Any other financial institution or institutional buyer, including, but not limited to:
    - A Small Business Investment Company licensed by the U.S. Small Business Administration under the Small Business Investment Act of 1958, as amended.
    - A private business development company as defined in Section 202(a)(22) of the 1940 Act.
    - An entity with total assets in excess of \$5 million and which is either: (k) a company (whether a corporation, a Massachusetts or similar business trust or a partnership) not formed for the specific purpose of acquiring the securities offered, a substantial part of whose business activities consists of investing, purchasing, selling or trading in securities issued by others and whose investment decisions made by persons who are reasonably believed by the seller to have such knowledge and experience in financial and business matters as to be capable of evaluating the merits and risks of investments, or (ii) an organization described in Section 501(c)(3) of the Internal Revenue Code; or
    - A Qualified Institutional Buyer as defined in rule 144A under the 1933 Act.



**Canfor Pulp Income Fund**

