

## Canfor Pulp Income Fund

### NOTICE OF ANNUAL GENERAL MEETING OF UNITHOLDERS

To: The Unitholders of Canfor Pulp Income Fund

Notice is hereby given that the Annual General Meeting of the holders of fund units of Canfor Pulp Income Fund (the "Fund") will be held in the Cypress Room, Hyatt Regency Hotel, 655 Burrard Street, Vancouver, British Columbia, on Tuesday, April 28, 2009 at 11:30 a.m. for the following purposes:

1. To receive the report of the trustees of the Fund, the financial statements of the Fund for the period ended December 31, 2008 and the report of the Fund's auditor;
2. To elect three trustees for the ensuing year;
3. To appoint the auditor of the Fund for the ensuing year; and
4. To transact such other business as may properly come before the meeting.

DATED at Vancouver, British Columbia this 17th day of March, 2009.

**By Order of the Trustees of the Fund**

**Terry D. Hodgins**  
**Secretary**

An Information Circular and a copy of the Annual Report of the Fund for the year ended December 31, 2008 accompany this Notice of Annual General 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, 2008 and the auditors report thereon and the Management's Discussion and Analysis of Financial Condition and Results of Operations of the Fund.

**A unitholder who is unable to attend the Meeting in person and who wishes to ensure that its 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.**



# Canfor Pulp Income Fund

## INFORMATION CIRCULAR

DATED AS OF MARCH 17, 2009

### SOLICITATION OF PROXIES

This Information Circular is furnished in connection with the solicitation of proxies by the Trustees of Canfor Pulp Income Fund (the "Fund") to be used at the Annual General Meeting (the "Meeting") of the unitholders of the Fund (the "Unitholders") 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 17, 2009 at the close of business as the record date for determining the names of unitholders of the Fund entitled to receive notice of 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 election of the Trustees named in the proxy; and (b) for the appointment of PricewaterhouseCoopers LLP as the auditor.**

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 Investor Communication Solutions ("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 AND REVOCATION OF PROXIES

Each of the persons named in the enclosed form of proxy are Trustees 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 17, 2009, 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 17, 2009, Letko, Brosseau & Associates Inc. has control over 6,368,076 representing 17.9% of total issued Fund Units and Platinum Investment Management Limited has control over 3,888,600 units representing 11% of total issued Fund Units. Beneficial ownership is not known to the Fund.

Canfor Corporation ("Canfor") owns 35,776,483 Class B Exchangeable LP Units, which represent a 50.2% interest in the Canfor Pulp Limited Partnership. The Class B Exchangeable LP Units are indirectly exchangeable for an equivalent number of Fund Units pursuant to the terms of an exchange agreement ("Exchange Agreement") dated July 1, 2006 among Canadian Forest Products Ltd. ("CFP"), the Fund, Canfor Pulp Trust, Canfor Pulp Limited Partnership and Canfor Pulp Holding Ltd.

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).

#### **THE FUND, THE TRUST AND CANFOR PULP HOLDING INC.**

The Fund is an unincorporated, open-ended trust established under the laws of the Province of Ontario by a declaration of trust dated April 29, 2006. The Fund has been established to acquire and hold the units and trust notes of the Trust.

Canfor Pulp Trust (the "Trust") is an open-ended trust established under the laws of the Province of Ontario by a declaration of trust dated April 29, 2006. The Trust has been established to acquire and hold limited partnership units of Canfor Pulp Limited Partnership and a corresponding interest in Canfor Pulp Limited Partnership's general partner, Canfor Pulp Holding Inc.

Canfor Pulp Limited Partnership (the "Partnership") is a limited partnership existing under the laws of the Province of Manitoba pursuant to a limited partnership agreement dated April 19, 2006.

Canfor Pulp Holding Inc. (the "General Partner") is a corporation incorporated under the laws of Canada on April 19, 2006 to act as the general partner of the Limited Partnership.

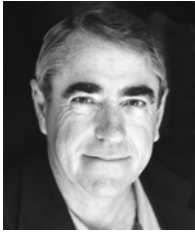
The principal and head office of the Fund, the Trust, the Limited Partnership and the General Partner is located at 1700 West 75<sup>th</sup> Avenue, Vancouver, British Columbia, Canada V6P 6G2.

#### **ELECTION OF TRUSTEES**

Pursuant to a declaration of trust dated April 19, 2006 (the "Trust Declaration"), 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 17, 2009.



**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, and director and treasurer of the Vancouver Police Foundation.

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

<u>No. of Fund Units Held</u>	
<u>2008</u>	<u>2007</u>
3,000	1,000



**Donald W. Campbell**, of Montreal, Quebec, Canada was appointed an initial Fund Trustee 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., Mecachrome International Inc., Rutter Inc., Perimeter Institute, ExcelTech Aerospace Inc. and Davie Yards Inc. 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 is a member of the Fund's Audit Committee.

<u>No. of Fund Units Held</u>	
<u>2008</u>	<u>2007</u>
11,000	1,000



**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 is currently serving again as Interim President. 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 is 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 2010 Legacies Now. 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 is a member of the Fund's Audit Committee.

<u>No. of Fund Units Held</u>	
<u>2008</u>	<u>2007</u>
2,000	2,000

To the knowledge of the Fund, no Trustee nominee of the Fund 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 is a director of Rutter Inc. ("Rutter") whereby a press release issued by Rutter on November 24, 2008 announced the anticipated default of the filing of its audited annual financial statements for the year ended August 31, 2008, MD&A and annual information form (the "Required Filings"). The press release indicated that the reason for the delay in filing the Required Filings is the lack of final agreement on a potential restructuring of the debt with Rutter's principal lender. The Chief Executive Officer of Rutter ("CEO") and the Chief Financial Officer of Rutter ("CFO") are currently subject to a management cease trade order ("MCTO"), which was requested by Rutter and granted by the Ontario Securities Commission ("OSC") on December 2, 2008. This request was made when it became apparent that Rutter would be delayed in filing the Required Filings. A permanent MCTO was issued by the OSC on December 16, 2008. The MCTO provides that all trading in and all acquisitions of the securities of Rutter, whether direct or indirect, by the CEO and the CFO must cease until the earlier of the receipt by the OSC of the Required Filings or further order by the OSC;
- (b) Mr. Campbell was also a director of Mecachrome International Inc. ("Mecachrome") since July 10, 2007. On December 12, 2008, Mecachrome announced that it had obtained creditor protection from the Quebec Superior Court under the Companies Creditors Arrangement Act (Canada) and further announced that it had obtained similar protection from the Courts for its French subsidiaries under the safeguard procedure in France. As of January 23, 2009, Mecachrome subordinate voting shares were delisted from the Toronto Stock Exchange for failure to meet continued listing requirements and;
- (c) 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 CANFOR PULP HOLDING INC. (THE "GENERAL PARTNER")**

Pursuant to a shareholders agreement dated July 1, 2006 between Canfor, the Fund, the Trust, the General Partner and the Partnership (the "Shareholders' Agreement"), Canfor is entitled to appoint 4 of the 8 directors to the Board 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 and Richards are Canfor's nominees to the General Partner's Board.

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 17, 2009.



**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 of the Board of Directors of Canfor Corporation and of its principal subsidiary, Canadian Forest Products Ltd. (“CFP”), and Co-Chairman and a director of HSPP General Partner Ltd., the general partner of Howe Sound Pulp and Paper Limited Partnership.

After working in various positions throughout Canadian Forest Products Ltd., Mr. Bentley became Executive Vice-President in 1970, President in 1975, and Chairman and 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 Canfor Corporation 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 is the former Chancellor of the University of Northern British Columbia. Mr. Bentley holds an Honorary Doctorate of Laws degree from the University of British Columbia and the University of Northern British Columbia

Mr. Bentley chairs the General Partner’s Compensation Committee.

No. of Fund Units Held

<u>2008</u>	<u>2007</u>
747,946	302,946



**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 Accounts 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, and director and treasurer of the Vancouver Police Foundation.

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

No. of Fund Units Held

<u>2008</u>	<u>2007</u>
3,000	1,000



**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., Mecachrome International Inc., Rutter Inc., Perimeter Institute, ExcelTech Aerospace Inc. and Davie Yards Inc. 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 is a member of the General Partner's Audit and Nominating Committees.

<u>No. of Fund Units Held</u>	
<u>2008</u>	<u>2007</u>
11,000	1,000



**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 was President of the University of Northern British Columbia 1995-2006 and is currently serving again as Interim President. 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 is 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 2010 Legacies Now. 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 is a member of the General Partner's Audit, Compensation and Nominating Committees.

<u>No. of Fund Units Held</u>	
<u>2008</u>	<u>2007</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 Nominating Committee and is a member of the Audit Committee.

<u>No. of Fund Units Held</u>	
<u>2008</u>	<u>2007</u>
2,096	1,896





**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.

No. of Fund Units Held

<u>2008</u>	<u>2007</u>
51,353	26,398



**James F. Shepard, P.Eng.**, of Vancouver, British Columbia, Canada was appointed to the Board of the General Partner on May 4, 2007. He also was appointed President and Chief Executive Officer of Canfor Corporation on July 27, 2007. Mr. Shepard is a Director 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, 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 an 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.

No. of Fund Units Held

<u>2008</u>	<u>2007</u>
10,000	Nil



**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 and Compensation Committees.

No. of Fund Units Held

<u>2008</u>	<u>2007</u>
20,000	N/A

## 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 (the "Compensation Committee").

### 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 were members of the Compensation Committee at December 31, 2008: P.J.G. Bentley, S. Bracken-Horrocks and C. Jago. 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 its 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 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 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 2008, the General Partner paid to the Named Executive Officers a total of \$539,450 in PSIP awards, representing 103% of target for the year.

Target awards and payouts for the Named Executive Officers for 2008 by component are summarized as follows:

	2008 Average Award as % of Target	% of Total Award
Partnership Performance	58%	27%
Business Unit Performance <sup>1</sup>	200%	39%
Individual Performance	118%	34%
	103%	100%

1. For 2008, the Partnership performance, as measured on an EBITDA/tonne basis, was 120% compared to 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 75% 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 2008, the General Partner paid to the Named Executive Officers a total of \$836,505 in LTIP awards, representing a total of 70% of Target for the year. Target awards and payouts for the Named Executive Officers for 2008 by component are summarized as follows:

	LTIP Award Weighting	2008 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% and accordingly, no award was made in this criteria for 2008.

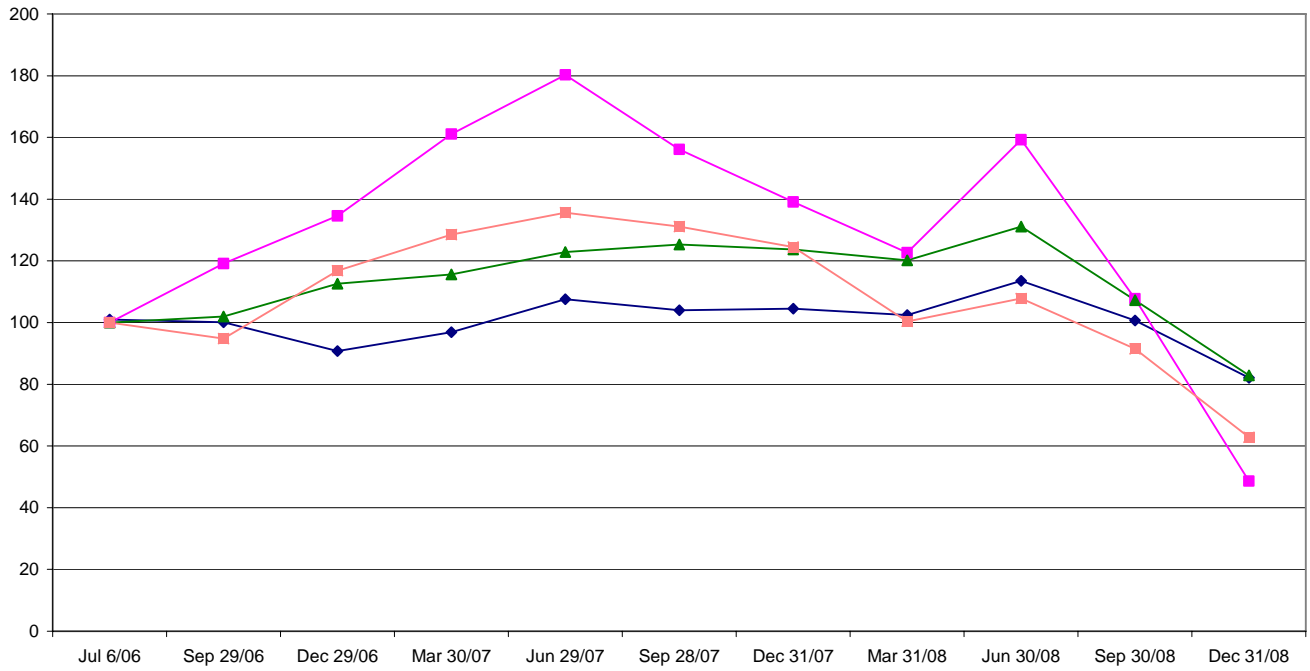
2. The Partnership achieved a number 1 ranking on an EBITDA/tonne basis when compared to the peer group, consisting of SFK Income Fund, Mercer International Inc., Tembec Inc. (pulp segment), West Fraser Timber Co. Ltd. (pulp segment), and Catalyst Paper Corporation (pulp segment), resulting in an award 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, 2008.

**Stock Performance Graph**

**Five-Year Cumulative Total Return**



◆ Scotia McLeod Trust Total Return Index      ■ CFX Total Return  
▲ TSX Composite Total Return                      ■ TSX Forest Products Total Return

	<b>Scotia McLeod Trust Total Return Index</b>	<b>CFX Total Return</b>	<b>TSX Composite Total Return</b>	<b>TSX 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

## CHANGE OF CONTROL AGREEMENTS

The General Partnership 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, 2008, the following table represents the amounts that would be payable to the Named Executive Officers under these agreements:

Name	Principal Position	Lump Sum Payment \$
Paul A. Richards	President & Chief Executive Officer	2,912,122
Terry D. Hodgins	Chief Financial Officer & Secretary	1,392,806
Joe Nemeth	Vice President, Sales and Marketing	1,345,058
Brett R. Robinson	Vice President, Operations	1,330,878

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 ("CEO"), Chief Financial Officer ("CFO") and the three most highly compensated executive officers other than the CEO and CFO. 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, 2008 (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 two 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	2008	441,302	262,170	391,438	100,000	45,197	1,240,107
	2007	437,612	337,000	767,550	91,300	27,467	1,660,929
Terry D. Hodgins <sup>3</sup> Chief Financial Officer & Secretary	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	2008	240,794	99,650	170,877	33,000	31,365	575,686
	2007	236,068	130,860	335,048	32,800	30,744	765,520
Brett R. Robinson <sup>4</sup> Vice President, Operations	2008	189,029	69,370	88,550	45,070	18,039	410,058
Tom 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 \$17,412 for car allowance; for Mr. Hodgins includes \$12,284 for car allowance and \$16,290 for club dues; for Mr. Nemeth includes \$17,205 for car allowance; and for Mr. Robinson includes \$12,999 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, 2008. There were no amendments to benefit terms during the 2008 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	3.65	34,500	86,800	237,000	100,000	(6,000)	331,000
Joe Nemeth Vice President, Sales & Marketing	5.91	32,000	143,700	184,000	33,000	(18,000)	199,000
Brett R. Robinson Vice President, Operations	14.35	54,600	54,600	347,000	24,000	(63,000)	308,000

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	--	28,828	3,885	32,713
Brett R. Robinson Vice President, Operations	40,623	21,070	(12,604)	49,089

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

For the nine month period ended September 30, 2008, 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 \$20,000 and was also paid an attendance fee of \$1,000 for each day of a scheduled meeting and an attendance fee of \$2,000 for each day of a non-scheduled meeting of the Board 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 \$3,000 for the most recently completed financial year. In addition, the Chairman of each Committee was paid an annual fee of \$3,000. The Chairman of the Board of the General Partner was paid a quarterly fee of \$12,500 for serving as Chairman. Effective October 1, 2008, the annual retainers and directors fees were amended as shown in the following table. On February 17, 2009, with effect on January 1, 2009,

the Board approved a reduction in Directors chair, retainer and meeting attendance fees by 20% from the October to December, 2008 amounts. The annual retainers and directors fees are as follows:

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

#### Director Compensation

	Fees Earned (\$) <sup>1</sup>
Jago, Charles J.	\$107,000
Bentley, Peter J.G.	\$41,000
Bracken-Horrocks, Stan E.	\$52,500
Campbell, Donald W.	\$48,000
Lusztig, Peter A.	\$49,500

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 17, 2009 payable by officers, directors, employees and former directors, officers and employees of the General Partner/Partnership or any of its subsidiaries to the General Partner/Partnership or any of its subsidiaries.

### CORPORATE GOVERNANCE

#### INTRODUCTION

On June 30, 2005, National Instrument 58-101 "Disclosure of Corporate Governance Practices" ("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 the General Partner (the "Board"), the Board 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 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 (directly or through its Committees) has expressly assumed responsibility in the areas listed below, among others.

### *Culture of Integrity*

The Board 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 in defining and maintaining appropriate standards of integrity throughout the organization (see also "Ethical Business Conduct" below).

### *Strategic Planning*

The Board participates in the strategic planning process by reviewing, providing comments and approving management's strategic plan. The Board sets aside at least one meeting per year to review and comment on management's strategic plan. This allows the Directors to gain a better appreciation of management's strategic planning priorities. Updates are provided to the Board throughout the year. The Board held a full day strategic planning session in 2008.

### *Risk Management*

Risk Management is a primary responsibility of the Chief Financial Officer ("CFO") 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 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 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 on succession planning matters.

### *Disclosure Control*

The General Partner and Fund has 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 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 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 and the Audit Committee. In addition, through the use of Canfor's internal auditors, the Board 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 auditor and management to discuss the effectiveness of such controls.

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

### **Independence**

The Board 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 has provided a means whereby individual Directors may engage outside advisors at the expense of the General Partner in appropriate circumstances. In 2008, no advisors were engaged on behalf of individual Directors. 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, 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 held 7 such meetings in 2008. The Chairman of the Corporate Governance Committee



meets annually with the CEO and Chairman of the Board to discuss the relationship between management and the Board and reports the results of these discussions to the Board.

#### **Attendance Record**

The attendance record of each Director for Board meetings and committee meetings is disclosed under the "Board of Directors" of this Information Circular.

#### **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, 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 approved a written Board Mandate, which defines the Board's 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 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 Nominating 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 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 receives updates and other information from management relating to changes in law or other matters relevance to the Board.

#### **ETHICAL BUSINESS CONDUCT**

##### **Code of Conduct**

As noted above, the Board 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 and management, functions of the Board, 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 Nominating 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 Nominating Committee is set out under the section "Board Committees" below.

On an annual basis, each Director is required to disclose and the Board reviews all of the Directors' personal or business relationships with the General Partner in order to allow the Board 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 nomination resides with the General Partner's Nominating Committee.

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

The Nominating 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 officer's 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 "Report on 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 2008.

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, 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. In addition, the Audit Committee makes recommendations to the Board 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 auditor 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 auditor. 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 General Partner's Annual Information Form dated February 17, 2009 entitled "Audit Committee Information", which is incorporated by reference herein and which is available on SEDAR at [www.sedar.com](http://www.sedar.com).

### **Nominating Committee**

The principal role and function of the Nominating Committee is to ensure that the General Partner, through its Board, sustains an effective approach to corporate governance. The Nominating 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 Nominating Committee is to review the Board's overall relationship with management. The Nominating Committee is also responsible for identifying and recommending proposed nominees for election to the Board, recommending the assignment of Directors to Committees of the Board and undertaking an annual assessment of the size and effectiveness of the Board and the Board Committees. The Nominating Committee also develops and periodically reviews compliance with the Board Nominating 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. The Nominating 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 Nominating 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 and to make recommendations to the Board 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 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. 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 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.

### BOARD/COMMITTEE ASSESSMENTS

The Nominating Committee annually undertakes assessments of the size and effectiveness of not only the Board's Committees, but also of the Board as a whole. It also reviews attendance by individual members at Committee and Board meetings. The Board 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 Nominating Committee and then discussed at a meeting of the full Board. The Nominating 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 its findings.

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

For the period from January 1 to December 31, 2008:

Board	7
Audit	5
Compensation	4
Nominating	4

### Summary of Attendance of Directors

For the period from January 1 to December 31, 2008

Director/Age	Board Meetings Attended	Committee Meetings Attended <sup>1</sup>
Peter J. G. Bentley (79)	6 of 7	4 of 4
Stan E. Bracken-Horrocks (65)	7 of 7	9 of 9
Donald W. Campbell (68)	6 of 7	9 of 9
Charles J. Jago (65)	7 of 7	13 of 13
Peter A. Lusztig (78)	7 of 7	9 of 9
Paul A. Richards (59)	7 of 7	N/A
James F. Shepard (70) <sup>2</sup>	7 of 7	N/A

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 AUDITOR

On the recommendation of the Audit Committee of the Fund and 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. 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, 2008 to PricewaterhouseCoopers LLP and its affiliates are \$600,584.

Financial Year Ending	Audit Fees <sup>1</sup>	Audit-related Fees	Tax Fees	All other Fees	Total Fees
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 excludes 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, 2008 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 Fund 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).*

The contents and the sending of this Information Circular have been approved by the Trustees of the Fund and the Board of Directors of the General Partner.

**By Order of the Trustees of the Fund**

**Terry D. Hodgins  
Secretary**

Vancouver, B.C.  
March 17, 2009



**Canfor Pulp Income Fund**

