

CANFOR CORPORATION



INFORMATION CIRCULAR

April 28, 2006



April 28, 2006

Dear Registered Canfor Shareholder:

We are pleased to invite you to attend a special meeting (the “**Meeting**”) of the registered holders (“**Registered Canfor Shareholders**”) of Common shares (“**Canfor Shares**”) of Canfor Corporation (“**Canfor**”) to be held in Canfor’s offices at 100 — 1700 West 75th Avenue, Vancouver, British Columbia on Friday, June 9, 2006 at 10:00 a.m. (Vancouver time).

At the Meeting, you will be asked to approve a proposed reorganization (the “**Spinout**”) which will result in Canfor Shareholders receiving units (“**Fund Units**”) of a new pulp trust, to be known as Canfor Pulp Income Fund (the “**Fund**”). Under the Spinout, Canfor Shareholders will receive a 20% interest in Canfor’s NBSK pulp and paper business (the “**Pulp Business**”), primarily consisting of Canfor’s Northwood Pulp Mill, Intercontinental Pulp Mill and Prince George Pulp and Paper Mill. These mills, all located in Prince George, British Columbia, produce over one million air-dried metric tonnes of softwood market kraft pulp and approximately 135,000 tonnes of bleached and unbleached kraft paper each year.

Once the Spinout is completed, Canfor Shareholders will receive one New Common Share and 0.1 of a Fund Unit for every Canfor Share held by them. On completion of the Spinout, all of the Canfor Shares will be cancelled and Canfor Shareholders will own all of the issued New Common Shares and all of the outstanding Fund Units, the latter indirectly representing a 20% interest in the Pulp Business. Canfor will indirectly own the remaining 80% interest in the Pulp Business. The Spinout is subject to a number of regulatory and other approvals, including approval by Registered Canfor Shareholders and the Supreme Court of British Columbia. Further details in respect of Canfor, the Fund and the Spinout are set forth in the enclosed information circular dated April 28, 2006 (the “**Information Circular**”). The Spinout is consistent with our previously-announced intention to focus on our core strength — our Lumber and Panel Business. We also believe it is an ideal time to undertake the Spinout since, due to increases in the allowable annual cut in the Prince George region to combat the mountain pine beetle infestation, fibre supplies and fibre costs in the Prince George region are projected to be favourable over the next eight to ten years.

We believe the Spinout will enhance value for Canfor Shareholders by dividing Canfor’s assets into two specific groups: (a) its core Lumber and Panel Business, which will continue to be owned by Canfor; and (b) the Pulp Business which will be 80% owned by Canfor and 20% owned by the Fund, and which will pay regular cash distributions. This will allow Canfor’s management to focus on Canfor’s core Lumber and Panel Business and allow management of the Pulp Business to focus on operating the Pulp Business to produce maximum distributable cash. Holding both Canfor Shares and Fund Units will allow Canfor Shareholders to participate either separately or on a combined basis in the growth potential of Canfor’s core Lumber and Panel Business and in the mature, income-producing Pulp Business.

If the Spinout is completed on July 1, 2006 as planned, the first cash distribution of the Fund, anticipated to be approximately \$0.10 to \$0.11 per Fund Unit, is expected to be paid on August 15, 2006 to holders of record of Fund Units as at July 31, 2006.

The Board of Directors of Canfor, based upon its own investigations, has unanimously concluded that the Spinout is in the best interests of Canfor and Canfor Shareholders and recommends that Canfor Shareholders vote in favour of the Spinout. Canfor’s directors and officers, who collectively own or exercise control or direction over approximately 20.83% of the outstanding Canfor Shares, have indicated their intention to vote in favour of the Spinout.

The enclosed Information Circular contains a detailed description of the Spinout, as well as detailed information regarding the Fund and Canfor after completion of the Spinout. Please give this material your careful consideration and, if you require assistance, consult your financial, tax or other professional advisors.

Whether you are a Registered Canfor Shareholder or a Beneficial Canfor Shareholder (i.e. you hold your Canfor Shares through or in the name of a broker or other market intermediary) please carefully follow the voting instructions on the next page to ensure that your vote is counted at the Meeting.

We request your support of the Spinout and look forward to seeing you at the Meeting.

Sincerely,

(signed) James A. Shepherd
President and Chief Executive Officer
Canfor Corporation

VOTING INSTRUCTIONS

Voting by Registered Canfor Shareholders

You are a “Registered Canfor Shareholder” if you hold your Canfor Shares in your name (and not through a broker or other market intermediary) and your name is listed in Canfor’s central securities register. If you are a Registered Canfor Shareholder, you should have received a GREEN form of proxy with this Information Circular.

If you are a Registered Canfor Shareholder, you can vote in one of two ways:

1. You can attend the Meeting in person and, upon presentation of identification (driver’s licence, passport, etc.) you will be admitted to the Meeting and will be entitled to vote your Canfor Shares; or
2. You can complete, sign and return the enclosed GREEN form of proxy, following the instructions printed on the proxy form.

Completing, signing and returning your form of proxy does not preclude you from attending the Meeting and voting in person.

Voting by Beneficial Canfor Shareholders

Most Canfor Shareholders are Beneficial Canfor Shareholders. You are a “Beneficial Canfor Shareholder” if you hold your Canfor Shares through a broker or other market intermediary. If you are a Beneficial Canfor Shareholder, you will not have received a green form of proxy with this Information Circular. **Instead, you will have received a voting instruction form (“Voting Form”), usually printed on WHITE paper with pink boxes and black lettering.**

If you are a Beneficial Canfor Shareholder, Canfor does not have a record of your shareholdings and will not be able to allow you to vote in person at the Meeting, even if you bring your Voting Form to the Meeting. In order to be able to vote in person or by proxy, you MUST do one of the following:

1. Complete, sign and return the Voting Form following the instructions printed on it. In completing the Voting Form, you can either:
 - (a) designate yourself as proxyholder, which will allow you to attend the Meeting in person and, upon presentation of identification (driver’s licence, passport, etc.), you will be admitted to the Meeting and will be entitled to vote your Canfor Shares; or
 - (b) leave the proxyholder section blank, which will result in management’s nominee voting your Canfor Shares as you instruct — if you follow this procedure, you will NOT be entitled to attend the Meeting in person or vote your Canfor Shares.
2. Follow the telephone or internet voting instructions printed on the Voting Form to provide instructions as to how management’s nominee is to vote your shares. If you follow this procedure, you will NOT be entitled to attend the Meeting in person or vote your Canfor Shares.

CANFOR CORPORATION

NOTICE OF SPECIAL MEETING to be held June 9, 2006

NOTICE IS HEREBY GIVEN that, pursuant to an order (the “**Interim Order**”) of the Supreme Court of British Columbia (the “**Court**”) dated April 27, 2006, a special meeting (the “**Meeting**”) of the registered holders (“**Registered Canfor Shareholders**”) of Common shares (“**Canfor Shares**”) of Canfor Corporation (“**Canfor**”) will be held in Canfor’s offices at 100 — 1700 West 75th Avenue, Vancouver, British Columbia on Friday, June 9, 2006 at 10:00 a.m. (Vancouver time) for the following purposes:

- (a) to consider pursuant to the Interim Order and, if deemed advisable, to pass, with or without variation, a special resolution to approve an arrangement under section 288 of the *Business Corporations Act* (British Columbia); and
- (b) to transact such other business as may properly be brought before the Meeting or any adjournment thereof.

The full text of the special resolution is set out in Appendix A to the accompanying information circular dated April 28, 2006 (the “**Information Circular**”).

The record date for determination of Registered Canfor Shareholders entitled to receive notice of and to vote at the Meeting is April 25, 2006. Only Registered Canfor Shareholders whose names were entered in Canfor’s central securities register at the close of business on that date, will be entitled to receive notice of and to vote at the Meeting.

Registered Canfor Shareholders have the right to dissent with respect to the Arrangement and, if the Arrangement becomes effective, to be paid the fair value of their Canfor Shares in accordance with the provisions of the Interim Order. A Registered Canfor Shareholder’s right to dissent is more particularly described in the accompanying Information Circular. **Failure to strictly comply with the requirements set forth in the Interim Order may result in the loss of any right of dissent.**

A Registered Canfor Shareholder may attend the Meeting in person or may be represented by proxy. Registered Canfor Shareholders who are unable to attend the Meeting, or any adjournment or postponement thereof, in person are requested to date, sign and return the enclosed form of proxy for use at the Meeting or any adjournment thereof. To be effective, the enclosed form of proxy must be received by CIBC Mellon Trust Company, Suite 1600, 1066 West Hastings Street, Vancouver, British Columbia, V6E 3X1, Attention: Proxy Department, or by the Corporate Secretary of Canfor at 100 — 1700 West 75th Avenue, Vancouver, British Columbia, V6P 6G2, in either case by 4:30 p.m. (Vancouver time) on June 7, 2006 or, if the Meeting is adjourned or postponed, by 4:30 p.m. (Vancouver time) on the second business day prior to the date on which the Meeting is reconvened.

DATED this 28th day of April, 2006.

BY ORDER OF THE BOARD OF DIRECTORS

(signed) David M. Calabrigo
Corporate Secretary

TABLE OF CONTENTS

<p>INFORMATION CIRCULAR 1</p> <p style="padding-left: 20px;">Introduction 1</p> <p style="padding-left: 20px;">Currency and Exchange Rates 1</p> <p style="padding-left: 20px;">Incorporation by Reference 1</p> <p style="padding-left: 20px;">Forward-looking Statements 2</p> <p style="padding-left: 20px;">Supplemental Disclosure 2</p> <p style="padding-left: 20px;">Information for U.S. Canfor Shareholders 3</p> <p>SUMMARY 5</p> <p>GLOSSARY 15</p> <p>THE SPINOUT 20</p> <p style="padding-left: 20px;">Background to the Spinout 20</p> <p style="padding-left: 20px;">Reasons for the Spinout 20</p> <p style="padding-left: 20px;">Effect of the Spinout 20</p> <p style="padding-left: 20px;">Structure Following the Spinout 21</p> <p style="padding-left: 20px;">The Fund 21</p> <p style="padding-left: 20px;">Canfor After the Spinout 22</p> <p style="padding-left: 20px;">Details of the Spinout 22</p> <p style="padding-left: 20px;">Procedure for the Arrangement Becoming Effective 23</p> <p style="padding-left: 20px;">Transfer of the Pulp Business and Related Agreements 24</p> <p style="padding-left: 20px;">New Credit Facilities 28</p> <p style="padding-left: 20px;">Required Approvals 29</p> <p style="padding-left: 20px;">Recommendation of the Board of Directors 30</p> <p style="padding-left: 20px;">Timing 30</p> <p style="padding-left: 20px;">Procedure for Exchange of Certificates 30</p> <p style="padding-left: 20px;">U.S. Canfor Shareholders 31</p> <p style="padding-left: 20px;">Certain Canadian Federal Income Tax Considerations 32</p> <p style="padding-left: 20px;">Certain United States Federal Income Tax Considerations 41</p>	<p style="padding-left: 20px;">Dissent Rights 45</p> <p style="padding-left: 20px;">Interest of Certain Persons in the Spinout 46</p> <p style="padding-left: 20px;">Expenses of the Spinout 46</p> <p style="padding-left: 20px;">Stock Exchange Listings 46</p> <p style="padding-left: 20px;">Price Range and Trading Volume of Canfor Shares 46</p> <p style="padding-left: 20px;">Canadian Regulatory Matters 47</p> <p style="padding-left: 20px;">U.S. Regulatory Matters 47</p> <p>CANFOR AFTER THE SPINOUT 48</p> <p>INFORMATION CONCERNING THE FUND 48</p> <p>INFORMATION CONCERNING THE TRUST 49</p> <p>INFORMATION CONCERNING THE LIMITED PARTNERSHIP 49</p> <p>RISK FACTORS 49</p> <p>GENERAL PROXY MATTERS 58</p> <p style="padding-left: 20px;">Solicitation Of Proxies 58</p> <p style="padding-left: 20px;">Record Date 58</p> <p style="padding-left: 20px;">Appointment Of Proxyholders And Revocation Of Proxies 58</p> <p style="padding-left: 20px;">Voting Of Shares And Exercise Of Discretion By Proxyholder 58</p> <p style="padding-left: 20px;">Voting Shares And Principal Holders Thereof 59</p> <p style="padding-left: 20px;">Advice to Beneficial Canfor Shareholders 59</p> <p>ADDITIONAL INFORMATION 60</p> <p style="padding-left: 20px;">Appendix A — Arrangement Resolution A-1</p> <p style="padding-left: 20px;">Appendix B — Court Materials B-1</p> <p style="padding-left: 20px;">Appendix C — Arrangement Agreement C-1</p> <p style="padding-left: 20px;">Appendix D — Canfor After the Spinout D-1</p> <p style="padding-left: 20px;">Appendix E — The Fund E-1</p>
--	---

INFORMATION CIRCULAR

Introduction

This Information Circular is furnished in connection with the solicitation of proxies by and on behalf of the management of Canfor for use at the Meeting and any adjournment(s) or postponement(s) thereof. No person has been authorized to give any information or make any representation in connection with the Spinout 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 Spinout and 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 1 to the Arrangement Agreement, which is attached as Appendix C to this Information Circular.

All capitalized terms used in this Information Circular but not otherwise defined herein have the meanings set forth under “Glossary”. Information contained in this Information Circular is given as of April 28, 2006 unless otherwise specifically stated.

Currency and Exchange Rates

Unless otherwise indicated, all dollar amounts in this Information Circular are expressed in Canadian dollars. The following table reflects the low and high rates of exchange for one Canadian dollar, expressed in United States dollars, in effect during the periods noted, the rates of exchange at the end of such periods and the average rates of exchange during such periods, based on the Bank of Canada average noon spot rate of exchange. The average exchange rate for each period is calculated using the Bank of Canada noon spot rate of exchange on the last business day of each month for the applicable period.

	Year Ended December 31,		
	2005	2004	2003
	US\$	US\$	US\$
Low for the period	\$0.7872	0.7159	0.6350
High for the period	\$0.8690	0.8493	0.7738
Rate at the end of the period	\$0.8577	0.8308	0.7738
Average noon spot rate for the period	\$0.8281	0.7721	0.7206

On April 27, 2006, the Bank of Canada noon spot rate of exchange was US\$0.8901 = Cdn\$1.00.

Incorporation by Reference

Information has been incorporated by reference in this Information Circular from documents filed with securities commissions or similar regulatory authorities in Canada. Copies of the documents incorporated herein by reference may be obtained on request without charge from Canfor’s Corporate Secretary at Canfor’s head office or by accessing the disclosure documents available through the internet on the Canadian System for Electronic Document Analysis and Retrieval (SEDAR) web site at www.sedar.com.

The following documents, or portions thereof, of Canfor have been or will be filed with the securities commission or similar regulatory authority in each of the provinces of Canada and are specifically incorporated by reference into, and form an integral part of, this Information Circular:

1. Canfor’s annual information form dated March 24, 2006;
2. Canfor’s audited comparative consolidated financial statements for the year ended December 31, 2005, including the auditors’ report thereon;
3. Canfor’s management’s discussion and analysis for the year ended December 31, 2005;
4. Canfor’s management proxy circular dated March 21, 2006 relating to its annual meeting of shareholders held on April 28, 2006;
5. the material change report dated February 24, 2006 relating to the Spinout; and
6. any material change reports (excluding confidential material change reports), unaudited interim financial statements and related management’s discussion and analysis filed by Canfor with securities commissions or similar regulatory authorities after the date of this Information Circular.

Documents are not incorporated by reference to the extent their contents are modified or superseded by a statement contained in this Information Circular.

Forward-looking Statements

Spinout

The Spinout is a proposed transaction. Throughout this Information Circular, descriptions of the Spinout and the effect thereof which are made on a prospective basis (using words such as “will”) are made as if the Spinout is completed. The completion of the Spinout is subject to a number of conditions which are described in this Information Circular and there is no assurance that it will be completed.

Other Statements

This Information Circular also contains other forward-looking statements. All statements other than statements of historical fact contained in this Information Circular are forward-looking statements, including, without limitation, statements regarding future financial position, business strategy, proposed acquisitions and dispositions, budgets, credit facilities available, projected costs, distributions to be paid by the Fund to Unitholders, cash flow of the Fund available for distribution, and plans and objectives of or involving Canfor or the Fund. Canfor Shareholders can identify many of these statements by looking for words such as “believe”, “expects”, “will”, “intends”, “projects”, “anticipates”, “estimates”, “continues” or similar words or the negative thereof. These forward-looking statements include statements with respect to: the business objectives and liquidity and capital resources of Canfor following the Spinout and of the Fund; amounts to be retained by the Partnership for growth capital expenditures; the amount and timing of the payment of any distributions on Fund Units by the Fund; pulp and paper production rates; the timing of the Final Order and the Effective Date of the Arrangement; and the satisfaction of conditions for listing the Fund Units. There can be no assurance that the plans, intentions or expectations upon which these forward-looking statements are based will occur. Forward-looking statements are subject to risks, uncertainties and assumptions, including those discussed elsewhere in this Information Circular. Although Canfor believes that the expectations represented in such forward-looking statements are reasonable, there can be no assurance that such expectations will prove to be correct.

The information contained in this Information Circular, including the information under “Risk Factors” and the documents incorporated by reference, identify factors that could affect the operating results and performance of Canfor and the Fund. Canfor Shareholders are urged to carefully consider those factors.

The forward-looking statements contained herein are expressly qualified in their entirety by this cautionary statement. The forward-looking statements included in this Information Circular are made as of the date of this Information Circular and Canfor undertakes no obligation to publicly update such forward-looking statements to reflect new information, subsequent events or otherwise.

Supplemental Disclosure

In addition to using financial measures prescribed by Canadian GAAP, certain non-GAAP financial measures and other terms are used in this Information Circular. These measures and terms include “EBITDA”, “Adjusted EBITDA” and “Distributable Cash”. These terms are not financial measures recognized by GAAP and do not have any standardized meaning prescribed by GAAP, and therefore may not be comparable to similar terms and measures presented by other issuers. These non-GAAP measures and terms are intended to provide additional information on the performance of the Partnership and the Fund and should not be considered in isolation or as substitutes for measures of performance prepared in accordance with GAAP.

When used in this Information Circular, “EBITDA” means net earnings adjusted to exclude amortization of property, plant and equipment, other amortization, interest expense, transaction costs and income taxes. A reconciliation of EBITDA to net income, the most directly comparable GAAP measure, is contained in Appendix E “Selected Historical Financial and Operational Information — Reconciliation of Non-GAAP Measures”. EBITDA or similar measures are routinely used by investors and financial analysts in the pulp industry as a supplementary non-GAAP financial measure in order to evaluate operating performance and a company’s ability to service its debt. Their use for these purposes is widespread and recognized by the industry in which the Partnership operates. In addition to these purposes, the Partnership also uses EBITDA to make strategic resource allocations.

When used in this Information Circular, “Adjusted EBITDA” means EBITDA of the Pulp Business adjusted to reflect the cost of fibre under the Fibre Supply Agreement as if it had been in effect for wood chips consumed from January 1, 2005 and to reflect the anticipated productivity increases and energy cost savings associated with the Cogeneration Project as if it had been completed and fully operational on January 1, 2005.

When used in this Information Circular, “Distributable Cash” means EBITDA less any estimated cash amounts required for debt service obligations of the Partnership, other expense obligations, capital expenditures, taxes, reserves and such other amounts as may be considered appropriate by the Partnership. Distributable Cash is presented in this Information Circular because the Fund intends to make monthly cash distributions. The Fund believes that Distributable Cash is a useful financial measure as it provides investors with an indication of cash available for distribution. A reconciliation of Distributable Cash to EBITDA is contained in Appendix E “Selected Historical Financial and Operational Information — Summary of Distributable Cash”.

EBITDA, Adjusted EBITDA and Distributable Cash should not be construed as alternatives to net earnings or cash flow from operating activities (as determined in accordance with GAAP) as indicators of the performance of the Fund or as measures of its liquidity.

Information for U.S. Canfor Shareholders

No Fund Units will be distributed to U.S. Canfor Shareholders other than Qualified U.S. Canfor Shareholders. See “The Spinout — U.S. Regulatory Matters”.

Accompanying the Letter of Transmittal is a Qualified Purchaser Certification which is to be completed and returned by all U.S. Canfor Shareholders on or prior to the Effective Date. U.S. Canfor Shareholders who fail to submit a properly completed and executed Qualified Purchaser Certification on or prior to the Effective Date will not receive the same type and/or amount of consideration with regard to the Fund Units as those who submit a properly completed and executed Qualified Purchaser Certification. See “The Spinout — U.S. Regulatory Matters — Qualified Purchaser Certification”.

Neither the New Common Shares nor the Fund Units to be issued under the Spinout have been registered under the 1933 Act, and are being issued in reliance on the exemption from registration set forth in Section 3(a)(10) thereof. Neither the New Common Shares nor the Fund Units will be listed for trading on any United States stock exchange, and any offers to resell or resales into the United States or to a U.S. Person of either New Common Shares or Fund Units received under the Spinout or by persons who, immediately prior to the Spinout, were “affiliates” (generally, controlling persons or members of a control group) of Canfor or who, after the completion of the Spinout, are “affiliates” of either Canfor or the Fund, may be subject to restrictions under the 1933 Act. The solicitation of proxies for the Meeting is not subject to the requirements of Section 14(a) of the 1934 Act. Accordingly, the solicitation 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 solely in accordance with disclosure requirements applicable in Canada. U.S. Canfor Shareholders 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. The unaudited pro forma consolidated financial statements of the Fund, the unaudited pro forma consolidated financial statements of Canfor and the audited historical consolidated financial statements of Canfor and the Canfor Corporation NBSK Pulp and Paper Business Unit included or incorporated by reference in this Information Circular have been prepared in accordance with Canadian GAAP and are subject to Canadian auditing and auditor independence standards which differ from United States GAAP in certain material respects, and thus may not be comparable in all respects to financial statements prepared in accordance with United States GAAP. Likewise, information concerning the operations of Canfor and the Fund contained herein or incorporated by reference has been prepared in accordance with Canadian disclosure standards, which are not comparable in all respects to United States disclosure standards.

Tax considerations generally applicable to U.S. Canfor Shareholders have been included in this Information Circular under the heading “The Spinout — Certain United States Federal Income Tax Considerations”. Nonetheless, U.S. Canfor Shareholders are advised to consult their tax advisors to determine the particular tax consequences to them of the Spinout.

The enforcement by investors of civil liabilities under United States securities laws may be affected adversely by the fact that Canfor and the Fund are organized or settled, as applicable, under the laws of British Columbia, Canada and Ontario, Canada, respectively, that all of the officers and the directors of Canfor and of the General Partner and all of the Fund Trustees are residents of countries other than the United States, that the experts named in this Information Circular are residents of countries other than the United States, and that a substantial portion of the assets of Canfor and the Fund and such persons are located outside the United States.

NEITHER THE NEW COMMON SHARES NOR THE FUND UNITS TO BE ISSUED UNDER THE SPINOUT HAVE BEEN APPROVED OR DISAPPROVED BY THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION OR THE SECURITIES REGULATORY AUTHORITY IN ANY STATE OF THE UNITED STATES, NOR HAS THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION OR ANY SUCH AUTHORITY PASSED ON THE ADEQUACY OR ACCURACY OF THIS INFORMATION CIRCULAR. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE.

SUMMARY

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. Terms with initial capital letters used in this summary are defined in the “Glossary”.

The Meeting

The Meeting will be held in Canfor’s offices at 100 — 1700 West 75th Avenue, Vancouver, British Columbia on Friday, June 9, 2006, at 10:00 a.m. (Vancouver time). The purpose of the Meeting is for Registered Canfor Shareholders to consider and, if deemed advisable, to pass the Arrangement Resolution necessary to permit the Board of Directors to implement the Spinout.

The Spinout

Under the Spinout, Canfor Shareholders will receive an indirect 20% interest in the Pulp Business, primarily consisting of Canfor’s Northwood Pulp Mill, Intercontinental Pulp Mill and Prince George Pulp and Paper Mill. The Mills, all located in Prince George, British Columbia, produce over one million ADMT of softwood market kraft pulp and approximately 135,000 tonnes of Kraft Paper each year. The Spinout involves Canfor Shareholders exchanging each Canfor Share held by them for one New Common Share and 0.1 of a Fund Unit. On completion of the Spinout, all of the Canfor Shares will be cancelled and Canfor Shareholders will own all of the issued New Common Shares and all of the outstanding Fund Units, the latter indirectly representing a 20% interest in the Pulp Business. The Spinout is consistent with Canfor’s previously-announced intention to focus on its core strength — its Lumber and Panel Business. Canfor also believes it is an ideal time to undertake the Spinout since, due to increases in the AAC in the Prince George region to combat the mountain pine beetle infestation, fibre supplies and fibre costs in the Prince George region are projected to be favourable over the next eight to ten years. See Appendix E, “The Fund — The Pulp Business — Fibre Supply”.

The Spinout is to be accomplished through the Plan of Arrangement and related transactions described in this Information Circular.

Recommendation of the Board of Directors

The Board of Directors has unanimously concluded that the Spinout is in the best interests of Canfor and Canfor Shareholders and recommends that Canfor Shareholders vote in favour of the Arrangement Resolution.

The management of Canfor understands that all of the directors and officers of Canfor presently intend to vote the Canfor Shares owned, or over which control and direction is exercised by them, in favour of the Arrangement Resolution. As of April 25, 2006, the directors and officers of Canfor owned, or exercised control and direction over, approximately 20.83% of the issued and outstanding Canfor Shares.

Reasons for the Spinout

The Board of Directors believes the Spinout has the following advantages:

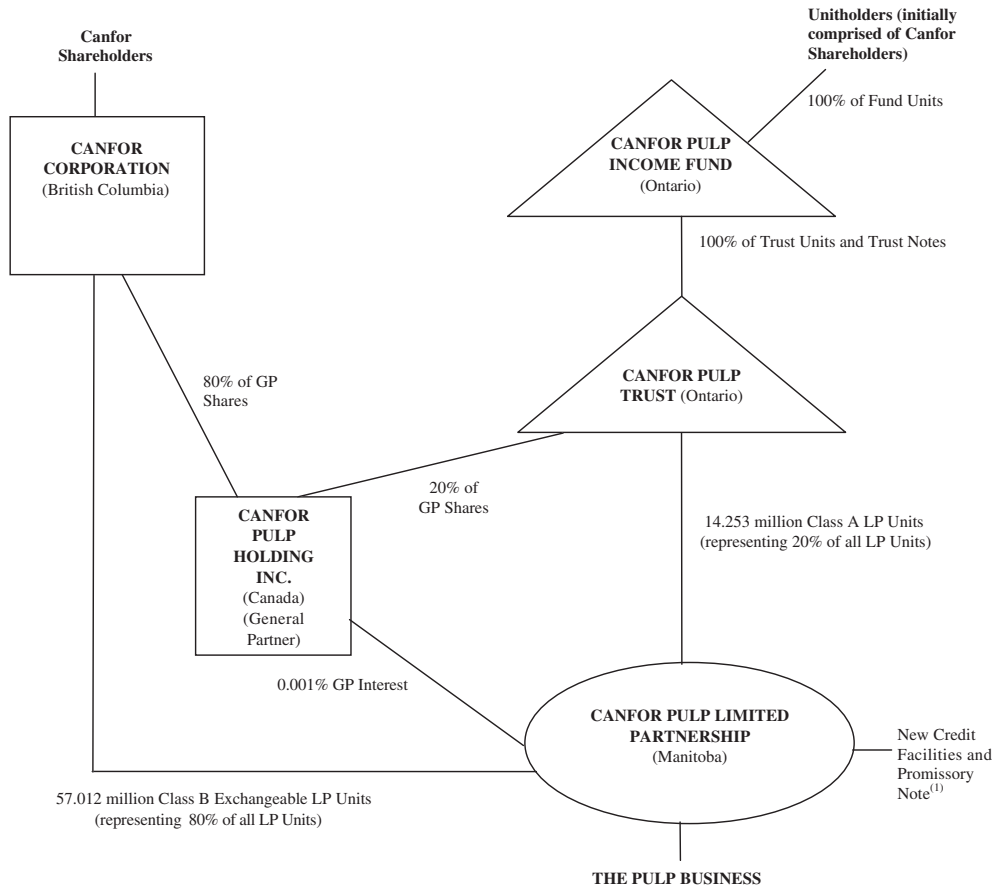
- the separation of the Lumber and Panel Business from the Pulp Business allows Canfor’s management to focus on its core Lumber and Panel Business and allows management of the Pulp Business to focus on operating the Pulp Business to produce maximum Distributable Cash;
- the separation of the Lumber and Panel Business from the Pulp Business allows Canfor Shareholders to participate either separately or on a combined basis in the growth potential of Canfor’s Lumber and Panel Business and in the mature, income-producing Pulp Business, aligns the risks and returns from each asset class and provides Canfor Shareholders with the ability to alter their participation in each;
- cash distributions to Unitholders are anticipated to provide an attractive return to Unitholders without impairing the ability of the Fund to sustain its existing assets and finance capital expenditures to allow for the expansion of the Pulp Business; and
- acquisitions of assets and businesses and the expansion of the Fund will be facilitated as a result of its tax-efficient structure, as it will be dealing on a competitive basis with other business trusts.

Effect of the Spinout

If the Spinout is completed, Canfor Shareholders, other than Dissenting Shareholders and Non-Qualified U.S. Canfor Shareholders, will receive in exchange for each Canfor Share, one New Common Share and 0.1 of a Fund Unit, with the distribution of the Fund Units being structured as a return of capital on the Canfor Shares. As a result, Canfor Shareholders will own all of the issued New Common Shares and will own all of the issued and outstanding Fund Units. Following completion of the Spinout, the outstanding Fund Units will represent a 20% indirect interest in the Pulp Business. Through its interest in the Partnership, which is indirectly exchangeable for Fund Units, Canfor will own the remaining 80% interest in the Pulp Business. See “The Spinout — Dissent Rights” and “The Spinout — U.S. Canfor Shareholders”.

Structure Following the Spinout

The following diagram illustrates the organizational structure of Canfor and the Fund following the completion of the Spinout.



(1) On the Effective Date, Canfor will provide the Partnership with financial support by accepting the Promissory Note and by financing, on a revolving basis, changes in the Partnership’s working capital. This financial support will be provided on an unsecured basis and will bear interest at market rates. This financial support will be repaid from the New Credit Facilities which are expected to be in place within 90 to 180 days after the Effective Date.

The Fund

Following completion of the Spinout, Unitholders will receive monthly distributions from the cash flow generated by the Pulp Business, which will be distributed to Unitholders through the Fund. The Partnership expects to implement a policy of initially distributing 90% of its annual Distributable Cash, payable on a monthly basis. The Fund's capital requirements will be funded primarily through the cash flow of the Partnership. Acquisitions by the Fund are expected to be financed through debt financing and the issuance of additional Fund Units, maintaining prudent leverage.

Following completion of the Spinout, the Partnership will have approximately 1,250 of its own full time dedicated employees, substantially all of whom were previously employed by Canfor. The Partnership will also have access to certain of Canfor's employees under the Partnership Services Agreement under which Canfor will provide administrative, corporate and certain operational services to the General Partner. The Partnership Services Agreement will provide that the General Partner will reimburse Canfor for reasonable costs incurred by Canfor in providing those services to the General Partner. The Partnership Services Agreement will be terminable, in whole or in part, at the election of the General Partner or Canfor, upon 12 months written notice.

See Appendix E, "The Fund".

Directors and Management of the General Partner

Following completion of the Spinout, the Pulp Business will be managed by the General Partner. The General Partner will have seven directors. Four of the directors are nominees of Canfor — Peter Bentley, Jim Shepherd, Peter Lusztig and Paul Richards and three of the directors are nominees of the Fund — Stan Bracken-Horrocks, Donald Campbell and Charles Jago. All of these directors, other than Jim Shepherd and Paul Richards, are independent of Canfor and the Partnership. The officers of the General Partner will be Paul Richards as President and Chief Executive Officer, Thomas Sitar as Chief Financial Officer and Joe Nemeth as Vice-President, Pulp and Paper Sales and Marketing.

The directors and officers of the General Partner described above will beneficially own, or have control or direction over, approximately 0.1% of the issued and outstanding Fund Units, based on the number of Canfor Shares outstanding and the shareholdings of such persons on April 27, 2006.

See Appendix E, "The Fund".

Canfor After the Spinout

Following completion of the Spinout, Canfor will continue to be the largest producer of softwood lumber in Canada, with an annual production capability, including New South, of approximately 5.1 billion board feet of lumber, 1.0 billion square feet of OSB ($\frac{3}{8}$ inch basis) and 440 million square feet of plywood. With the recent completion of Canfor's acquisition of New South, Canfor has added an annual capacity of approximately 425 million board feet of southern yellow pine and approximately 120 million board feet of treated lumber. Canfor will not dispose of any forest tenures under the Spinout. With the recent completion of the sale of its Englewood Operations, Canfor has approximately 10.3 million cubic metres of AAC. Canfor will continue to be managed by the existing management team of Canfor and will pursue the same growth strategy for its Lumber and Panel Business as Canfor has previously employed. Through their ownership of New Common Shares, Canfor Shareholders will be able to continue to participate in a company focused on high levels of growth through reinvestment of cash flows.

On completion of the Spinout, the directors and officers of Canfor will beneficially own, or have control and direction over, approximately 20.83% of the issued and outstanding New Common Shares, based on the number of Canfor Shares outstanding and the shareholdings of such persons on April 27, 2006.

See Appendix D, "Canfor After the Spinout".

Required Approvals

Completion of the Spinout is subject to receipt of a number of regulatory and other approvals, including approval by Registered Canfor Shareholders and the Court. Further details in respect of certain of these approvals are set out below.

Approval of Canfor Shareholders

Under the Interim Order, the Arrangement Resolution must be approved by at least two-thirds of the votes cast at the Meeting by Registered Canfor Shareholders.

Approval of the Court

If the Arrangement Resolution is passed by Registered Canfor Shareholders at the Meeting in the manner required by the Interim Order, Canfor intends to apply to the Court for the Final Order. An application for the Final Order approving the Arrangement is expected to be made on June 15, 2006 at 9:45 a.m. (Vancouver time) at the Courthouse, 800 Smithe Street, Vancouver, British Columbia. On the application, the Court will consider the fairness of the Arrangement. The Final Order will constitute the basis for an exemption from the registration requirements of the 1933 Act with respect to the New Common Shares to be issued to U.S. Canfor Shareholders and the Fund Units to be transferred to U.S. Canfor Shareholders other than Non-Qualified U.S. Canfor Shareholders under the Spinout. Prior to the hearing on the Final Order, the Court will be informed of this effect of the Final Order.

Stock Exchange Listing Approvals

It is a condition to the completion of the Spinout that the TSX shall have conditionally approved the listing of the New Common Shares, in substitution for the listing of the Canfor Shares, and the listing of the Fund Units, subject only to the filing of required documents which cannot be filed prior to the Effective Date. The listing of the Fund Units will be subject to the Fund meeting TSX original listing requirements. The requirements of the TSX for such listings are expected to be met on the Effective Date or soon thereafter.

Tax Matters

Completion of the Spinout is subject to Canfor's receipt of satisfactory advice from Counsel as to the Canadian tax consequences of the Spinout to Canfor and the Canfor Shareholders.

Procedure for Exchange of Certificates

Registered Canfor Shareholders, other than Dissenting Shareholders, must deposit their certificates representing Canfor Shares in exchange for certificates representing New Common Shares and must designate the broker or other CDS participant through which they will hold their Fund Units by properly completing and returning to the Depository the enclosed Letter of Transmittal (printed on blue paper), together with the certificates representing their Canfor Shares and/or any other documents contemplated by the Letter of Transmittal. Until Registered Canfor Shareholders deposit certificates representing their Canfor Shares together with a properly completed Letter of Transmittal, they will not receive a certificate for their New Common Shares and their Fund Units will be held by the Depository on a non-certificated basis.

No fractional Fund Units will be transferred to Registered Canfor Shareholders. Any Registered Canfor Shareholder otherwise entitled to a fraction of a Fund Unit will instead receive a cash payment equal to the product of that fractional interest and the Average Trading Price of Fund Units.

Registration of interests in and transfers of Fund Units will be made only through participants in CDS. In order to receive the distributions paid on Fund Units, Registered Canfor Shareholders must designate in the Letter of Transmittal a broker or other CDS participant through which they will hold their Fund Units. All rights of Unitholders must be exercised through, and all payments and other property to which a Unitholder is entitled will be made or delivered by, CDS or the CDS participant through which the Unitholder holds its Fund Units.

Only Registered Canfor Shareholders may complete a Letter of Transmittal. **A Beneficial Canfor Shareholder who holds Canfor Shares through a broker or other market intermediary must arrange for the Registered Canfor Shareholder holding its Canfor Shares to deliver a Letter of Transmittal together with the certificate or certificates representing the Beneficial Canfor Shareholder's Canfor Shares. The Letter of Transmittal contains complete instructions on how to exchange Canfor Share certificates.** If a Registered Canfor Shareholder has not deposited a duly completed Letter of Transmittal together with the certificates representing its Canfor Shares on or prior to the sixth anniversary of the Effective Date, its entitlement to the New Common Shares and Fund Units and dividends or distributions paid thereon shall cease and be surrendered to Canfor. See "The Spinout — Procedure for Exchange of Certificates".

U.S. Canfor Shareholders

Each U.S. Canfor Shareholder who otherwise satisfies the requirements for treatment as a Qualified U.S. Canfor Shareholder will receive Fund Units distributable to Registered Canfor Shareholders under the Arrangement if such U.S. Canfor Shareholder, on or prior to the Effective Date, submits (and does not withdraw) a Qualified Purchaser Certification, the form of which is attached to the Letter of Transmittal, certifying such U.S. Canfor Shareholder's status as a Qualified U.S. Canfor Shareholder.

Each U.S. Canfor Shareholder who (a) submits a Qualified Purchaser Certification on or prior to the Effective Date certifying such U.S. Canfor Shareholder's status as a Non-Qualified U.S. Canfor Shareholder or (b) fails to submit a Qualified Purchaser Certification on or prior to the Effective Date will not receive Fund Units. Instead, the Fund Units that each such U.S. Canfor Shareholder would otherwise have received will be pooled and sold in the Canadian market as soon as practicable following the Effective Date on behalf of all such U.S. Canfor Shareholders, and each such U.S. Canfor Shareholder will receive a cash payment (net of any applicable withholding taxes) representing such shareholder's *pro rata* interest in the net proceeds from the sale of such pooled Fund Units. For each U.S. Canfor Shareholder who submits, on or prior to the Effective Date, a properly completed and executed Qualified Purchaser Certification certifying that such shareholder is a Non-Qualified U.S. Canfor Shareholder, Canfor will pay the fees and costs associated with such pooling and sale.

See "The Spinout — U.S. Regulatory Matters".

Certain Canadian Federal Income Tax Considerations

This Information Circular contains a summary of certain Canadian federal income tax considerations generally applicable to Canfor Shareholders under the Arrangement. The following comments are qualified in their entirety by that summary. See "The Spinout — Certain Canadian Federal Income Tax Considerations".

Under the Arrangement each Canfor Shareholder, other than a Dissenting Shareholder, will receive in exchange for each of its Canfor Shares one New Common Share and 0.1 of a Fund Unit. See "The Spinout — Details of the Spinout".

Canfor Shareholders Filing a Section 85 Election.

A Canfor Shareholder (other than a Dissenting Shareholder) may make a joint election with Canfor pursuant to subsection 85(1) of the Tax Act (or, in the case of a Canfor Shareholder that is a partnership, pursuant to subsection 85(2) of the Tax Act) and thereby obtain a full or partial tax deferred "rollover" for Canadian income tax purposes, depending on the Elected Amount(s) and the adjusted cost base to the Canfor Shareholder of such holder's Canfor Shares. So long as the adjusted cost base to the Canfor Shareholder of such holder's Canfor Shares immediately before the Effective Date equals or exceeds the fair market value, as at the Effective Date, of the Fund Units and any cash in lieu of a fractional Fund Unit received by such Canfor Shareholder, the Canfor Shareholder may elect so as to not realize a capital gain for the purposes of the Tax Act. Canfor Shareholders should consult their own tax advisers regarding this "rollover" treatment and the corresponding provincial "rollover" rules applicable for provincial income tax purposes.

In general, where a joint election under section 85 of the Tax Act is made by Canfor and a Canfor Shareholder in respect of the exchange of the Canfor Shareholder's Canfor Shares for New Common Shares and Fund Units pursuant to the Plan of Arrangement, the Elected Amount must comply with the following rules:

1. The Elected Amount may not be less than the fair market value as at the Effective Date of the Fund Units and any cash in lieu of a fractional Fund Unit received by the Canfor Shareholder.
2. The Elected Amount may not be less than the lesser of the adjusted cost base to the Canfor Shareholder of the Canfor Shares immediately before the Effective Date and the fair market value of such shares at that time.
3. The Elected Amount may not exceed the fair market value, as at the Effective Date, of the Canfor Shares to which the election applies.

Where such an election is made, the tax treatment to the Canfor Shareholder will, in general, be as follows:

1. The Canfor Shareholder will be deemed to have disposed of the Canfor Shares for proceeds of disposition equal to the Elected Amount.
2. If such proceeds of disposition of the Canfor Shares are equal to the aggregate of the adjusted cost base to the Canfor Shareholder of such shares, determined immediately before the Effective Date, and any reasonable costs of the disposition, no capital gain or capital loss will be realized by the Canfor Shareholder.
3. To the extent that such proceeds of disposition of the Canfor Shares exceed (or are less than) the aggregate of the adjusted cost base thereof to the Canfor Shareholder, determined immediately before the Effective Date, and any reasonable costs of disposition, the Canfor Shareholder will, in general, realize a capital gain (or capital loss).
4. The cost to the Canfor Shareholder of the Fund Units received on the exchange will be equal to the fair market value thereof as at the Effective Date, and the cost to the Canfor Shareholder of the New Common Shares received on the exchange will be equal to the amount by which the proceeds of disposition of the Canfor Shares exchanged by the Canfor Shareholder (i.e. the Elected Amount) exceed the fair market value of the Fund Units and any cash in lieu of a fractional Fund Unit received on the exchange.

Failure to File a Section 85 Election

A Canfor Shareholder (other than a Dissenting Shareholder) who does not file a valid joint election with Canfor pursuant to section 85 of the Tax Act may nevertheless qualify for “rollover” treatment on the exchange of their Canfor Shares for New Common Shares and Fund Units if it is determined that section 86 of the Tax Act applies to the exchange. The current administrative position of the CRA with respect to the application of section 86 to the exchange is uncertain. Although the matter is not free from doubt, Counsel is of the view that section 86 should apply to the exchange, and therefore the tax consequences of the exchange to a Canfor Shareholder who does not file a valid joint election with Canfor pursuant to section 85 of the Tax Act should be as described below. However, no assurance can be given in this regard. If section 86 does apply to the exchange, the Canadian federal income tax consequences to the Canfor Shareholder generally will be as follows:

- (a) the Canfor Shareholder will be deemed to have disposed of its Canfor Shares for proceeds of disposition equal to the greater of the adjusted cost base of such shares to the Canfor Shareholder and the fair market value, at the Effective Date, of the Fund Units and any cash in lieu of a fractional Fund Unit received by such Canfor Shareholder;
- (b) if the adjusted cost base of the Canfor Shareholder’s Canfor Shares exceeds the fair market value of the Fund Units and any cash in lieu of a fractional Fund Unit received by the Canfor Shareholder, then
 - (i) the Canfor Shareholder will not realize any capital gain or capital loss as a consequence of the Arrangement;
 - (ii) the Canfor Shareholder will be deemed to have acquired the Fund Units at a cost equal to their fair market value at the Effective Date; and
 - (iii) the Canfor Shareholder will be deemed to have acquired the New Common Shares at a cost equal to the adjusted cost base of its Canfor Shares less the fair market value of the Fund Units and any cash in lieu of a fractional Fund Unit; and
- (c) if the adjusted cost base of the Canfor Shareholder’s Canfor Shares is less than the fair market value of the Fund Units and any cash in lieu of a fractional Fund Unit received by the Canfor Shareholder, then
 - (i) the Canfor Shareholder will be deemed to realize a capital gain equal to the difference between those two amounts;
 - (ii) the Canfor Shareholder will be deemed to have acquired the Fund Units at a cost equal to their fair market value at the Effective Date; and
 - (iii) the Canfor Shareholder will be deemed to have acquired the New Common Shares at a cost equal to nil.

If a Canfor Shareholder does not file a valid joint election with Canfor pursuant to section 85 of the Tax Act, and it is ultimately determined that section 86 does not apply to the Arrangement, the Canfor Shareholder (other than a Dissenting Shareholder) will be considered to have disposed of its Canfor Shares for proceeds of disposition equal to the aggregate fair market value of the New Common Shares and Fund Units, and any cash in lieu of a fractional Fund Unit, received by the Canfor Shareholder on the exchange, and will realize a capital gain (or capital loss) to the extent such proceeds exceed (or are less than) the aggregate of the adjusted cost base of the Canfor Shareholder's Canfor Shares immediately before the Effective Date and any reasonable costs of the disposition. The Canfor Shareholder will be considered to have acquired the New Common Shares and Fund Units received on the exchange at a cost equal to their respective fair market values as at the Effective Date.

Non-Resident Canfor Shareholders

A Non-Resident Canfor Shareholder (as defined under "The Spinout — Certain Canadian Federal Income Tax Considerations") generally will not be subject to tax in respect of any capital gain realized on the disposition of a Canfor Share pursuant to the Arrangement, or on the disposition of a Fund Unit (whether on sale, redemption, by virtue of capital distributions in excess of a Unitholder's ACB or otherwise), unless such property constitutes "taxable Canadian property" of the holder for purposes of the Tax Act and no relief is available to the holder under the provisions of an income tax convention between Canada and the holder's jurisdiction of residence.

Certain United States Federal Income Tax Considerations

A U.S. Holder (as defined under "The Spinout — Certain United States Federal Income Tax Considerations") generally will be required to recognize dividend income for U.S. federal income tax purposes as a result of the Arrangement. The foregoing is qualified by the more detailed summary in this Information Circular. See "The Spinout — Certain United States Federal Income Tax Considerations."

Other Non-Canadian Tax Considerations

This Information Circular does not address any tax considerations of the Spinout other than Canadian and United States federal income tax considerations. Canfor Shareholders who are resident in jurisdictions other than Canada or the United States should consult their tax advisors with respect to the tax implications of the Spinout, including any associated filing requirements, in such jurisdictions. Canfor Shareholders should also consult their own tax advisors regarding provincial or territorial tax considerations of the Spinout.

Selected Pro Forma Financial and Operational Information for Canfor after the Spinout

The following tables contain selected historical financial and operating information for Canfor. Financial information for each of the years ended December 31, 2005, 2004 and 2003 has been derived from the audited financial statements of Canfor incorporated by reference into this Information Circular. The pro forma financial information for 2005 set out in the following tables has been prepared based upon the assumptions set out in the pro forma financial statements included in Appendix D and, in accordance with GAAP, consolidates the Partnership's financial results and shows a 20% minority interest.

Selected Pro Forma and Historical Financial Information

	Pro Forma 2005 (unaudited)	Year Ended December 31,		
		2005	2004	2003
		(in millions of dollars)		
<u>Income Statement</u>				
Sales	3,787.8	3,787.8	3,925.0	2,355.0
Costs and expenses	3,645.4	3,645.4	3,430.5	2,343.3
Operating Income (loss) from continuing operations	142.4	142.4	494.5	11.7
Foreign exchange gain on long term debt	10.0	10.0	48.7	110.9
Interest expense	(42.2)	(42.2)	(58.8)	(60.2)
Other income (expense)	(1.8)	(1.8)	25.2	82.8
Income tax expense	(12.4)	(12.4)	(94.1)	2.0
Minority interest	0.6	—	—	—
Net income	<u>96.6</u>	<u>96.0</u>	<u>415.5</u>	<u>147.2</u>

Selected Historical Operating Data

	Year Ended December 31,		
	2005	2004	2003
		(unaudited)	
<u>Production Statistics</u>			
Lumber — MMfbm	4,624.4	4,234.9	2,632.6
Plywood — MMsf ³ / ₈ " basis	433.3	356.6	175.6
Oriented strand board — MMsf ³ / ₈ " basis	478.8	384.8	—
Pulp — 000 ADMT	1,189.1	1,142.3	992.1
Kraft Paper — 000 mt	127.4	134.1	128.5

Selected Financial and Operational Information for the Pulp Business

Selected Historical Financial Information

The following tables contain selected historical financial and operational information for the Pulp Business in which the Fund will have a 20% indirect interest following the completion of the Spinout. The financial information has been derived from and read in conjunction with the audited financial statements of the Pulp Business included in Appendix E — “The Fund”.

	<u>Year Ended December 31,</u>		
	<u>2005</u>	<u>2004</u>	<u>2003</u>
	(audited)		
	(in millions of dollars)		
<u>Income Statement</u>			
Sales	783.9	849.7	790.5
Costs and expenses			
Manufacturing and production costs	591.0	629.7	604.4
Freight and other distribution costs	114.0	115.1	112.7
Amortization	47.2	45.7	45.7
Selling and administration	<u>19.7</u>	<u>20.7</u>	<u>19.9</u>
Earnings before income taxes	12.0	38.5	7.8
Income tax expense	<u>1.8</u>	<u>15.4</u>	<u>4.7</u>
Net Income	<u><u>10.2</u></u>	<u><u>23.1</u></u>	<u><u>3.1</u></u>

Selected Historical Operating Data

	<u>Year Ended December 31,</u>		
	<u>2005</u>	<u>2004</u>	<u>2003</u>
	(unaudited)		
<u>Production Statistics</u>			
<u>Pulp</u>			
Sales volume (ADMTs)	982,101	974,363	999,178
Productivity (ADMTs produced per operating day)	3,165	3,160	3,196
Average price realized (per ADMT)	535	597	537
Fibre costs (per ADMT)	172	207	183
Cash conversion costs (per ADMT)	301	308	312
<u>Paper</u>			
Sales volume (tonnes)	127,419	139,820	121,370
Productivity (tonnes produced per operating day)	354	375	368
Average price realized (per tonne)	775	773	824
Cash conversion costs (per tonne)	203	208	207
Cash production costs (per tonne)	718	770	744

Reconciliation of Non-GAAP Measures

	<u>Year Ended</u> <u>December 31,</u>		
	<u>2005</u>	<u>2004</u>	<u>2003</u>
	(unaudited)		
	(in millions of dollars)		
Net Income	10.2	23.1	3.1
Income taxes	1.8	15.4	4.7
Interest expense	—	—	—
Amortization	<u>47.2</u>	<u>45.7</u>	<u>45.7</u>
EBITDA ⁽¹⁾	<u><u>59.2</u></u>	<u><u>84.2</u></u>	<u><u>53.5</u></u>

(1) EBITDA is not a recognized measure under Canadian generally accepted accounting principles (GAAP). See “Information Circular — Supplemental Disclosure”.

Summary of Distributable Cash

The following analysis of Distributable Cash was prepared by management to assist a reader of this Information Circular and is based on information contained in this Information Circular and management's estimate of the amounts of certain expenses to be incurred by the Partnership following the Effective Date. It is not a forecast or a projection of future results. The actual results of operations of the Partnership for any period following the Effective Date will vary from the amounts set forth in the following analysis and such variation may be material. See "Risk Factors" for a discussion of the risks that could cause actual results to vary.

	Year Ended December 31, 2005⁽¹⁾
	(unaudited) (in millions of dollars except per unit amounts)
EBITDA ⁽²⁾	59.2
Impact of the fibre price change ⁽³⁾	51.2
Impact of Cogeneration Project ⁽⁴⁾	<u>22.6</u>
Adjusted EBITDA	133.0
Management believes the following deductions are required to determine estimated Distributable Cash:	
Capital expenditures ⁽⁵⁾	(34.0)
Interest expense ⁽⁶⁾	<u>(10.0)</u>
Estimated Distributable Cash	89.0
Less 10% holdback (90% payout ratio)	<u>(8.9)</u>
Estimated distributions	<u>80.1</u>
Estimated distributions per LP Unit ⁽⁷⁾	<u><u>\$ 1.12</u></u>

- (1) The results for this period are not necessarily indicative of the results to be expected in any given fiscal year. If the Spinout is completed on July 1, 2006 as planned, the first cash distribution of the Fund, anticipated to be approximately \$0.10 to \$0.11 per Fund Unit, is expected to be paid on August 15, 2006 to holders of record of Fund Units as at July 31, 2006.
- (2) EBITDA is not a recognized measure under Canadian GAAP. See "Information Circular — Supplemental Disclosure".
- (3) The adjustment for cost of fibre gives effect to the pricing formula in the Fibre Supply Agreement as though it had been in effect for wood chips consumed from January 1, 2005. See Appendix E "The Pulp Business — Fibre Supply — Fibre Supply Agreement — Summary of Cost Savings".
- (4) The adjustment for productivity increase and energy savings gives effect to the Cogeneration Project as though it had been completed and fully operational by January 1, 2005. See Appendix E "The Pulp Business — Energy — PGP&P — Cogeneration Agreement — Summary of Cost Savings".
- (5) Reflects management's estimates of future annual sustaining capital expenditures (before inflation adjustment). Actual historic capital expenditures differ from management's estimates. For a review of actual historic sustaining and discretionary capital expenditures. See Appendix E "The Pulp Business — Capital Expenditures".
- (6) Estimated annual interest and financing expense associated with the Promissory Note and the New Credit Facilities. See Appendix E "New Credit Facilities".
- (7) Per unit amounts based on 71.265 million LP Units outstanding for the period. Amounts distributed per Fund Unit are not expected to vary materially from the amount distributed per LP Unit.

GLOSSARY

In this Information Circular, the following terms shall have the meanings set forth below, unless otherwise indicated:

“**1933 Act**” means the *United States Securities Act of 1933*, as amended;

“**1934 Act**” means the *United States Securities Exchange Act of 1934*, as amended;

“**1940 Act**” means the *United States Investment Company Act of 1940*, as amended;

“**Acquisition**” means the transfer of the Pulp Business from CFP to the Partnership;

“**Acquisition Agreement**” means the asset purchase agreement, in the form attached as Schedule 2 to the Arrangement Agreement, between Canfor and the Partnership to be dated as of the Effective Date, setting out the terms of the Acquisition;

“**Adjusted EBITDA**” means EBITDA of the Pulp Business, adjusted to reflect the cost of fibre for the Pulp Business under the Fibre Supply Agreement and to reflect the anticipated productivity increases and energy cost savings resulting from the Cogeneration Project;

“**AAC**” means allowable annual cut;

“**ACB**” means “adjusted cost base” within the meaning of the Tax Act;

“**ADMT**” means air dried metric tonnes;

“**Arrangement**” means the arrangement under section 288 of the BCBCA contemplated by the Plan of Arrangement;

“**Arrangement Agreement**” means the arrangement agreement dated April 25, 2006 between Canfor, CFP, the Fund, the Trust, the General Partner and the Partnership providing for the completion of the Arrangement and related transactions, a copy of which is attached as Appendix C to this Information Circular;

“**Arrangement Resolution**” means the special resolution to be considered and voted on by Registered Canfor Shareholders at the Meeting, the full text of which is set out in Appendix A to this Information Circular;

“**Average Trading Price of Fund Units**” means, solely for the purpose of determining the payment to which a Registered Canfor Shareholder is entitled in respect of a fraction of a Fund Unit, an amount equal to the simple average of the closing prices of the Fund Units on the TSX for each of the first ten trading days on which the Fund Units are traded on the TSX;

“**BCBCA**” means the *Business Corporations Act* (British Columbia), as amended, and the regulations thereunder;

“**Beneficial Canfor Shareholder**” means a beneficial owner of Canfor Shares;

“**Board of Directors**” means the Board of Directors of Canfor;

“**Business Day**” means a day, other than a Saturday, Sunday or statutory holiday, when banks are generally open in Vancouver, British Columbia for the transaction of banking business;

“**Canfor**” means Canfor Corporation, a company incorporated under the laws of British Columbia and, unless otherwise indicated or the context otherwise requires, includes its subsidiaries and interests in joint ventures and other entities or any two of them or more, collectively;

“**Canfor Shareholder**” means a Registered Canfor Shareholder or a Beneficial Canfor Shareholder;

“**Canfor Shares**” means the Common shares in the authorized share structure of Canfor as constituted immediately prior to the Effective Time;

“**CBCA**” means the *Canada Business Corporations Act*, as amended, and the regulations thereunder;

“**CDS**” means The Canadian Depository for Securities Limited;

“**CFP**” means Canadian Forest Products Ltd., a wholly-owned subsidiary of Canfor, incorporated under the laws of British Columbia;

“**Chemical Supply Agreement**” means the long-term, sodium chlorate supply agreement between Chemtrade and Canfor;

“**Chemtrade**” means Chemtrade Pulp Chemicals Limited Partnership;

“**Class A LP Units**” means the class A units of the Partnership. See Appendix E “Description of the Partnership — Capitalization”;

“**Class B Exchangeable LP Units**” means the class B exchangeable units of the Partnership;

“**Cogeneration Agreement**” means the agreement between BC Hydro and Canfor relating to the Cogeneration Project;

“**Cogeneration Project**” means the cogeneration project described in more detail in Appendix E “The Pulp Business — Energy”;

“**Commissions**” means the securities commission or other securities regulatory authority in each of the provinces and territories of Canada;

“**Counsel**” means Stikeman Elliott LLP;

“**Court**” means the Supreme Court of British Columbia;

“**CRA**” means the Canada Revenue Agency;

“**Depositary**” means CIBC Mellon Trust Company or such other institution as Canfor may select;

“**Dissent Notice**” means a written notice of a Registered Canfor Shareholder dissenting in respect of the Arrangement Resolution submitted to Canfor in accordance with the Dissent Rights;

“**Dissent Rights**” means the rights of a Registered Canfor Shareholder to dissent in respect of the Arrangement Resolution as set out in the Interim Order;

“**Dissent Shares**” means the Canfor Shares held by a Dissenting Shareholder in respect of which the Dissenting Shareholder has duly and validly exercised the Dissent Rights;

“**Dissenting Shareholder**” means a Registered Canfor Shareholder who has duly and validly exercised the Dissent Rights;

“**Distributable Cash**” means, for any given period, the Partnership’s EBITDA for the particular period less any estimated cash amounts required for debt service obligations of the Partnership, other expense obligations, capital expenditures, taxes, reserves and such other amounts as may be considered appropriate by the Partnership;

“**EBITDA**” means net earnings adjusted to exclude amortization of property, plant and equipment, other amortization, interest expense, transaction costs and income taxes;

“**Effective Date**” means the date selected by Canfor as being the date upon which the Arrangement first becomes effective, currently anticipated to be July 1, 2006;

“**Effective Time**” means 12:01 a.m. on the Effective Date;

“**ERISA**” means the *United States Employee Retirement Security Act of 1974*, as amended;

“**Exchange Agreement**” means the exchange agreement among CFP, the Fund, the Trust, the General Partner and the Partnership to be dated as of the Effective Date containing, among other things, the procedure through which the Class B Exchangeable LP Units may be exchanged for Fund Units;

“**Fibre Supply Agreement**” means the fibre supply agreement between Canfor and the Partnership to be dated as of the Effective Date;

“**Final Order**” means the final order of the Court approving the Arrangement as such order may be amended by the Court at any time prior to the Effective Date or, if appealed, then, unless such appeal is withdrawn or denied, as affirmed or as amended on appeal;

“**Fund**” means Canfor Pulp Income Fund, an unincorporated open-ended limited purpose trust established pursuant to the Fund Declaration under the laws of the Province of Ontario;

“**Fund Declaration**” means the declaration of trust made as of April 19, 2006, governed by the laws of the Province of Ontario, pursuant to which the Fund was established, as amended, supplemented, restated or replaced from time to time;

“**Fund Support Agreement**” means the fund support agreement between the Fund, the Trust, the Partnership and the General Partner to be dated as of the Effective Date;

“**Fund Trustee**” means a trustee from time to time of the Fund;

“**Fund Units**” means the trust units of the Fund, each trust unit representing an equal undivided beneficial interest in the Fund;

“**GAAP**” means generally accepted accounting principles;

“**General Partner**” means Canfor Pulp Holding Inc., a corporation incorporated under the laws of Canada;

“**GP Interest**” means the undivided nominal interest of the General Partner in the Partnership;

“**GP Shares**” means common shares of the General Partner;

“**Information Circular**” means, collectively, the notice of meeting and this Information Circular, including all appendices hereto, sent to Canfor Shareholders in connection with the Meeting;

“**Interim Order**” means the interim order of the Court in respect of the Arrangement dated April 27, 2006, a copy of which is attached hereto in Appendix B;

“**Kraft Paper**” means bleached and unbleached kraft paper;

“**Letter of Transmittal**” means the letter of transmittal sent to Registered Canfor Shareholders (printed on blue paper) which, when duly completed and returned with the certificate or certificates representing Canfor Shares and/or any other required documents, will enable Registered Canfor Shareholders to receive certificates representing New Common Shares and to designate the broker or other CDS participant through which they will hold their Fund Units;

“**LP Units**” means the limited partnership units of the Partnership, consisting of Class A LP Units and Class B Exchangeable LP Units;

“**Meeting**” means the special meeting of the Registered Canfor Shareholders (including any adjourned or postponed meeting) to be called and held in accordance with the Interim Order to consider the Arrangement Resolution;

“**metric tonne**” means an ADMT for NBSK Pulp and an ODT for wood fibre;

“**Mills**” means, collectively, the Intercontinental Pulp Mill, Northwood Pulp Mill and Prince George Pulp and Paper Mill, and ancillary assets;

“**NBSK Pulp**” or “**NBSK**” means northern bleached softwood kraft;

“**New Common Shares**” means Common shares in the authorized share structure of Canfor to be created and issued to Canfor Shareholders under the Arrangement;

“**New Credit Facilities**” means the Term Facility and the Revolving Facility in the aggregate amount of up to \$200 million;

“**New South**” means New South Companies Inc.;

“**Non-Qualified U.S. Canfor Shareholder**” mean a U.S. Canfor Shareholder who is not a Qualified U.S. Canfor Shareholder. See “The Spinout — U.S. Regulatory Matters — Non-Qualified U.S. Canfor Shareholders”;

“**Note Indenture**” means the note indenture to be entered into on or prior to the Effective Date between the Trust and CIBC Mellon Trust Company, as trustee thereunder, pursuant to which the Trust will issue the Trust Notes, as amended, supplemented, restated or replaced from time to time;

“**Notice of Intention**” means a notice sent by Canfor to a Dissenting Shareholder indicating that Canfor intends to complete the Arrangement;

“**ODT**” means oven-dried metric tonnes;

“**OSB**” means oriented strand board;

“**Partnership**” means Canfor Pulp Limited Partnership, a limited partnership formed under the laws of the Province of Manitoba;

“**Partnership Agreement**” means the limited partnership agreement made as of April 19, 2006 between CFP and the General Partner governed by the laws of the Province of Manitoba, as amended, supplemented, restated or replaced from time to time;

“**Partnership Interest**” of any person means the percentage of the outstanding LP Units held by that person;

“**Partnership Services Agreement**” means the partnership services agreement between the Partnership and Canfor to be dated as of the Effective Date, under which Canfor will provide certain operational and transitional services to the Partnership;

“**person**” means any individual, partnership, firm, trust, body corporate, government, governmental body, agency or instrumentality, unincorporated body of persons or association;

“**PGP&P**” means the Prince George Pulp and Paper Mill;

“**Plan of Arrangement**” means the plan of arrangement attached as Schedule 1 to the Arrangement Agreement, which is attached hereto as Appendix C and any amendments, variations or supplements thereto made in accordance with the terms of the Plan of Arrangement or the Arrangement Agreement or at the direction of the Court in the Final Order;

“**Plans**” means registered retirement savings plans, registered retirement income funds, deferred profit sharing plans and registered education savings plans, collectively;

“**Promissory Note**” means the promissory note in the principal amount of \$125 million issued by the Partnership to Canfor as partial consideration for the Partnership’s acquisition of the Pulp Business;

“**Pulp Business**” means Canfor’s NBSK pulp and paper business, primarily consisting of owning and operating the Mills, which business will be acquired by the Partnership under the Acquisition Agreement;

“**Purchase Price**” means the consideration paid by the Partnership to Canfor under the Acquisition Agreement, consisting of the value of approximately 14.253 million Class A LP Units and 57.012 million Class B Exchangeable LP Units and the principal amount of the Promissory Note;

“**Qualified Purchaser**” has the meaning set forth in Section 2(a)(51)(A) of the 1940 Act;

“**Qualified Purchaser Certification**” means the certification to be provided by a U.S. Canfor Shareholder in the form attached to the Letter of Transmittal;

“**Qualified U.S. Canfor Shareholder**” means a U.S. Canfor Shareholder who is a Qualified Purchaser and who has, on or prior to the Effective Date, properly submitted (and not withdrawn) a Qualified Purchaser Certification to Canfor and the Fund that does not indicate that such U.S. Canfor Shareholder is ineligible to receive Fund Units. See “The Spinout — U.S. Regulatory Matters — Qualified U.S. Canfor Shareholders”;

“**Record Date**” means April 25, 2006;

“**Redemption Date**” means the date upon which Fund Units are surrendered for redemption;

“**Redemption Price**” means the price to which a Unitholder is entitled upon the surrender of its Fund Units on the exercise of its redemption rights;

“**Registered Canfor Shareholder**” means a registered holder of Canfor Shares;

“**Registrar**” means the Registrar of Companies appointed under the BCBCA;

“**Revolving Facility**” means a revolving credit facility to be obtained by the Partnership on or following the Effective Date;

“**Sale Trustee**” means CIBC Mellon Trust Company or such other institution as Canfor may select;

“**Shareholders’ Agreement**” means the unanimous shareholders’ agreement to be dated as of the Effective Date between Canfor, the Fund, the Trust, the General Partner and the Partnership;

“**Special Resolution**” means a resolution passed by at least two thirds of the votes cast by holders of Fund Units;

“**Spinout**” means the proposed reorganization consisting of the transactions set out in the Plan of Arrangement;

“**Tax Act**” means the *Income Tax Act* (Canada), as amended, and the regulations thereunder;

“**Term Facility**” means a non-revolving credit facility to be obtained by the Partnership on or following the Effective Date, the proceeds of which are expected to be used to pay the Promissory Note;

“**Trust**” means Canfor Pulp Trust, an unincorporated trust established pursuant to the Trust Declaration under the laws of the Province of Ontario;

“**Trust Declaration**” means the declaration of trust made as of April 19, 2006, governed by the laws of the Province of Ontario, pursuant to which the Trust was established, as amended, supplemented, restated or replaced from time to time;

“**Trust Notes**” means the notes issued by the Trust from time to time in accordance with the Note Indenture;

“**Trust Trustee**” means a trustee from time to time of the Trust;

“**Trust Units**” means the trust units of the Trust, each trust unit representing an equal undivided beneficial interest therein;

“**TSX**” means the Toronto Stock Exchange;

“**United States**” or “**U.S.**” means the United States of America and any territory or possession thereof;

“**Unitholder**” and “**Unitholders**” means the holders from time to time of Fund Units;

“**U.S. Canfor Shareholder**” means any Canfor Shareholder who is, at the Effective Time, either resident in the United States or a U.S. Person; and

“**U.S. Person**” means a U.S. Person as defined in Rule 902(k) under Regulation S under the 1933 Act including, but not limited to, any natural person resident in the United States.

THE SPINOUT

Under the Spinout, Canfor Shareholders will receive an indirect 20% interest in the Pulp Business, primarily consisting of Canfor's Northwood Pulp Mill, Intercontinental Pulp Mill and Prince George Pulp and Paper Mill. The Mills, all located in Prince George, British Columbia, produce over one million ADMT of softwood market kraft pulp and approximately 135,000 tonnes of Kraft Paper each year. The Spinout involves Canfor Shareholders exchanging each Canfor Share held by them for one New Common Share and 0.1 of a Fund Unit. On completion of the Spinout, all of the Canfor Shares will be cancelled and Canfor Shareholders will own all of the issued New Common Shares and all of the outstanding Fund Units, the latter indirectly representing a 20% interest in the Pulp Business. The Spinout is consistent with Canfor's previously-announced intention to focus on its core strength — its Lumber and Panel Business. Canfor also believes it is an ideal time to undertake the Spinout since, due to increases in the AAC in the Prince George region to combat the mountain pine beetle infestation, fibre supplies and fibre costs in the Prince George region are projected to be favourable over the next eight to ten years.

The Spinout is to be accomplished through the Plan of Arrangement and related transactions described in this Information Circular.

Background to the Spinout

At a meeting of Canfor's Board of Directors held in February 2005, Canfor management proposed a strategy to the Board of Directors which focussed on the development of the Lumber and Panel Business as the core business of Canfor. As a result, management was authorized by the Board of Directors to consider various alternatives to create value for Canfor Shareholders from the Pulp Business. Throughout 2005, management explored various alternatives for value creation in the Pulp Business, including a sale of all or a part of the assets, a spinout of the assets into an income trust with an initial public offering of a portion of the units to the public and a spinout to Canfor Shareholders. After exploring these alternatives management met with the Capital Expenditure Committee of the Board on June 30, July 20, September 29 and November 29, 2005 and February 2, 2006 to discuss and analyze the alternatives.

At the Capital Expenditure Committee meeting held on February 2, 2006, management proposed to the Committee that it consider the Spinout substantially on the terms set out in this Information Circular. At a Board meeting held on February 15, 2006, the Capital Expenditure Committee recommended the Board authorize management to take the necessary steps to complete the Spinout and the Board accepted that recommendation.

Reasons for the Spinout

The Board of Directors believes the Spinout has the following advantages:

- the separation of the Lumber and Panel Business from the Pulp Business allows Canfor's management to focus on its core Lumber and Panel Business and allows management of the Pulp Business to focus on operating the Pulp Business to produce maximum Distributable Cash;
- the separation of the Lumber and Panel Business from the Pulp Business allows Canfor Shareholders to participate either separately or on a combined basis in the growth potential of Canfor's Lumber and Panel Business and in the mature, income-producing Pulp Business, aligns the risks and returns from each asset class and provides Canfor Shareholders with the ability to alter their participation in each;
- cash distributions to Unitholders are anticipated to provide an attractive return to Unitholders without impairing the ability of the Fund to sustain its existing assets and finance capital expenditures to allow for the expansion of the Pulp Business; and
- acquisitions of assets and businesses and the expansion of the Fund will be facilitated as a result of its tax-efficient structure, as it will be dealing on a competitive basis with other business trusts.

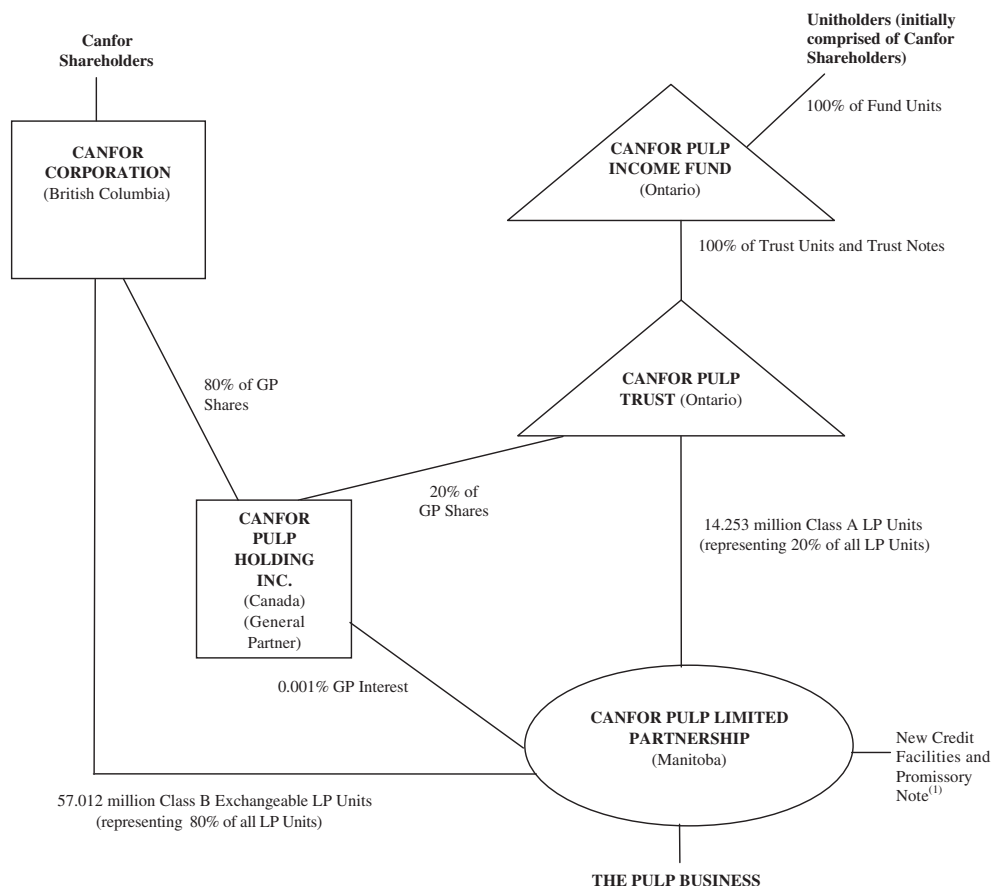
Effect of the Spinout

If the Spinout is completed, Canfor Shareholders, other than Dissenting Shareholders and Non-Qualified U.S. Canfor Shareholders, will receive, in exchange for each Canfor Share, one New Common Share and 0.1 of a Fund Unit, with the distribution of the Fund Units being structured as a return of capital on the Canfor Shares. As a result, Canfor Shareholders will own all of the issued New Common Shares and will own all of the issued and outstanding Fund Units. Following completion of the Spinout, the outstanding Fund Units will represent a 20% indirect

interest in the Pulp Business. Through its interest in the Partnership, which is indirectly exchangeable for Fund Units, Canfor will own the remaining 80% interest in the Pulp Business.

Structure Following the Spinout

The following diagram illustrates the organizational structure of Canfor and the Fund following the completion of the Spinout.



(1) On the Effective Date, Canfor will provide the Partnership with financial support by accepting the Promissory Note and by financing, on a revolving basis, changes in the Partnership's working capital. This financial support will be provided on an unsecured basis and will bear interest at market rates. This financial support will be repaid from the New Credit Facilities which are expected to be in place within 90 to 180 days after the Effective Date.

The Fund

Following completion of the Spinout, Unitholders will receive monthly distributions from the cash flow generated by the Pulp Business, which will be distributed to Unitholders through the Fund. The Partnership expects to implement a policy of initially distributing 90% of its annual Distributable Cash, payable on a monthly basis. The Fund's capital requirements will be funded primarily through the cash flow of the Partnership. Acquisitions by the Fund are expected to be financed through debt financing and the issuance of additional Fund Units, maintaining prudent leverage.

Following completion of the Spinout, the Partnership will have approximately 1,250 of its own full time dedicated employees, substantially all of whom were previously employed by Canfor. The Partnership will also have access to certain of Canfor's employees under the Partnership Services Agreement under which Canfor will provide administrative and certain operational services to the General Partner. The Partnership Services Agreement will provide that the General Partner will reimburse Canfor for reasonable costs incurred by Canfor in providing those services to

the General Partner. The Partnership Services Agreement will be terminable, in whole or in part, at the election of the General Partner or Canfor, upon 12 months written notice.

See Appendix E, “The Fund”.

Canfor After the Spinout

Following completion of the Spinout, Canfor will continue to be the largest producer of softwood lumber in Canada, with an annual production capability, including New South, of approximately 5.1 billion board feet of lumber, 1.0 billion square feet of OSB (3/8 inch basis) and 440 million square feet of plywood. With the recent completion of Canfor’s acquisition of New South, Canfor has added an annual capacity of approximately 425 million board feet of southern yellow pine and approximately 120 million board feet of treated lumber. Canfor will not dispose of any forest tenures under the Spinout. With the recent completion of the sale of its Englewood Operations, Canfor has approximately 10.3 million cubic metres of AAC. Canfor will continue to be managed by the existing management team of Canfor and will pursue the same growth strategy for its Lumber and Panel Business as Canfor has previously employed. Through their ownership of New Common Shares, Canfor Shareholders will be able to continue to participate in a company focused on high levels of growth through reinvestment of cash flows.

See Appendix D, “Canfor After the Spinout”.

Details of the Spinout

The following description of the Spinout is qualified in its entirety by reference to the full text of the Plan of Arrangement set forth in Schedule 1 to the Arrangement Agreement, which is attached as Appendix C to this Information Circular.

The Arrangement Agreement

The Spinout will be accomplished through a series of transactions described in the Arrangement Agreement, including the Plan of Arrangement. Canfor, CFP, the Fund, the Trust, the General Partner and the Partnership have entered into the Arrangement Agreement which provides for the Spinout and the implementation of the Plan of Arrangement pursuant to section 288 of the BCBCA. The Arrangement Agreement contains covenants, representations and warranties of and from each of the parties to it, as well as various conditions precedent.

The Arrangement will become effective on the Effective Date, currently anticipated to be July 1, 2006.

Under the Spinout, all Canfor Shareholders (other than Dissenting Shareholders and Non-Qualified U.S. Canfor Shareholders) will receive the same consideration, being one New Common Share and 0.1 of a Fund Unit for each Canfor Share held by them. Non-Qualified U.S. Canfor Shareholders will receive one New Common Share and a cash payment for every Canfor Share held by them.

Pre-Arrangement Matters

The General Partner has been incorporated under the laws of Canada as a wholly-owned subsidiary of Canfor. The Partnership has been established under the laws of Manitoba to carry on the business of purchasing, owning and operating the Pulp Business. The initial partners of the Partnership are the General Partner and Canfor. The Fund and the Trust have been established by the Fund Declaration and the Trust Declaration to own a 20% interest in the Pulp Business through the Partnership.

Canfor understands that its capital cost allowance tax pools will be reduced through transfer of the Pulp Business. Canfor will implement a pre-Arrangement reorganization to preserve approximately \$350 million of capital cost allowance tax pools, and enable the Partnership to receive approximately \$250 million of capital cost allowance tax pools with the Pulp Business.

The Partnership intends to enter into the New Credit Facilities, or make arrangements to ensure that the New Credit Facilities are available shortly after the Effective Date.

The Arrangement and Related Transactions

1. Canfor will transfer and contribute the Pulp Business to the Partnership in exchange for the Promissory Note and approximately 14.253 million Class A LP Units and 57.012 million Class B Exchangeable LP Units, pursuant to the terms and conditions set out in the Acquisition Agreement. See “The Spinout — Transfer of the Pulp Business and Related Agreements — Acquisition Agreement”. Concurrently with the transfer of

the Pulp Business, Canfor and the Partnership will enter into certain material contracts, including the Fibre Supply Agreement and Partnership Services Agreement.

2. Canfor will transfer the Class A LP Units to the Trust in exchange for Trust Notes having an aggregate principal amount equal to the fair market value of such Class A LP Units and will also commit to transferring 20% of the GP Shares to the Trust. The Trust Notes will then be exchanged with the Fund for approximately 14.253 million Fund Units.
3. Canfor's notice of articles will be amended to redesignate the Canfor Shares as Class A Common Shares and to create the New Common Shares, having the same rights and restrictions as the Canfor Shares currently have.
4. Canfor Shareholders will receive, in exchange for each Canfor Share, one New Common Share and 0.1 of a Fund Unit, except for Dissenting Shareholders, who will receive a cash payment for their Canfor Shares and except for Canfor Shareholders who are Non-Qualified U.S. Canfor Shareholders, who will receive one New Common Share and a cash payment in lieu of their Fund Units.
5. As the Fund Units are being distributed as a return of capital on the Canfor Shares, the capital in respect of the New Common Shares will be fixed at an amount equal to the paid-up capital, for the purposes of the Tax Act, of the Canfor Shares, less the value of the Fund Units, amounts paid in respect of fractional Fund Units and amounts paid to Dissenting Shareholders.

No fractional Fund Units will be transferred to Registered Canfor Shareholders. Any Registered Canfor Shareholder otherwise entitled to a fraction of a Fund Unit will instead receive a cash payment equal to the product of that fraction and the Average Trading Price of Fund Units.

Procedure for the Arrangement Becoming Effective

Procedural Steps

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

- (a) the Arrangement Resolution must be passed by the Registered Canfor Shareholders voting at the Meeting;
- (b) the Arrangement must be approved by the Court through the Final Order;
- (c) all conditions precedent to the Arrangement set forth in the Arrangement Agreement must be satisfied; and
- (d) a copy of the Final Order, a notice of alteration and related documents must be filed with the Registrar.

Conditions Precedent to the Arrangement

The completion of the Arrangement is subject to the following conditions precedent:

- (a) the Interim Order shall have been granted in form and substance satisfactory to Canfor;
- (b) the Arrangement shall have been approved by the Registered Canfor Shareholders in accordance with the Interim Order;
- (c) the Final Order shall have been granted in form and substance satisfactory to Canfor;
- (d) the TSX shall have conditionally approved the listing of the New Canfor Shares and the Fund Units issuable or transferable under the Arrangement, subject to compliance with the normal listing requirements of the TSX;
- (e) Canfor shall have received satisfactory advice from Counsel as to the Canadian tax consequences of the Spinout to Canfor and the Canfor Shareholders;
- (f) all other material consents, orders and approvals, including any regulatory or judicial approvals or orders, that Canfor considers necessary or desirable to effect the Arrangement shall have been obtained or received from the persons, authorities or bodies having jurisdiction in the circumstances on terms and conditions that are considered satisfactory or acceptable by Canfor;
- (g) Canfor's existing credit facilities shall have been amended in a manner satisfactory to Canfor;
- (h) arrangements satisfactory to Canfor shall have been made for the New Credit Facilities;

- (i) no order or decree restraining or enjoining the consummation of the Arrangement or any of the other transactions contemplated by the Arrangement Agreement shall be in force immediately prior to the Effective Time;
- (j) the Board of Directors shall have determined to proceed with the Arrangement having considered, among other things, the number of Canfor Shares in respect of which Dissent Rights have been exercised; and
- (k) the Arrangement Agreement shall not have been terminated.

Upon the conditions being fulfilled, Canfor intends to file with the Registrar a copy of the Final Order, a notice of alteration and related documents.

Notwithstanding the foregoing, the Arrangement Resolution proposed for consideration by the Registered Canfor Shareholders authorizes the Board of Directors, without further notice to or approval of the Canfor Shareholders, to amend the terms of the Arrangement Agreement or the Plan of Arrangement or to decide not to proceed with the Arrangement, at any time prior to the Effective Time. See Appendix A for the text of the Arrangement Resolution.

Transfer of the Pulp Business and Related Agreements

Canfor's subsidiary, CFP, owns all of the assets and operations comprising the Pulp Business. Under the Arrangement Agreement, in connection with the transfer of the Pulp Business to the Partnership, Canfor, CFP, the Fund, the Trust, the General Partner and the Partnership will enter into a number of material contracts, including the Fibre Supply Agreement and the Partnership Services Agreement.

Acquisition Agreement

The Acquisition Agreement governs the transfer of the Pulp Business to the Partnership. Under that agreement, Canfor will transfer and contribute the Pulp Business to the Partnership, and will enter into the Fibre Supply Agreement and the Partnership Services Agreement with the Partnership. The Partnership will assume and be responsible for all of the liabilities of Canfor relating to the Pulp Business from and after the Effective Time, including liabilities arising under the Cogeneration Agreement and the Chemical Supply Agreement. The liabilities to be assumed by the Partnership include, without limitation:

- all liabilities under assigned contracts, but excluding liabilities arising under such contracts before the Effective Date and liabilities for retroactive rate or payment adjustments relating to matters that occurred before the Effective Date;
- all liabilities under licences and permits other than environmental permits, but excluding those liabilities, other than environmental liabilities, arising from the breach of such licences and permits prior to the Effective Date;
- all liabilities included in working capital on the financial statements of the Pulp Business;
- all liabilities with respect to permitted encumbrances, other than taxes payable by Canfor;
- all environmental liabilities and liabilities under environmental permits, other than liabilities for breach of environmental permits prior to the Effective Date;
- all liabilities with respect to aboriginal claims affecting the Pulp Business; and
- all liabilities with respect to certain disclosed legal proceedings.

The Partnership will be responsible for its own insurance coverage, including all property and liability coverage, commencing from the Effective Date.

The Partnership will offer employment to all unionized and non-unionized employees who are employed in connection with the Pulp Business.

The Acquisition Agreement will contain customary representations and warranties and related indemnities from Canfor in favour of the Partnership. No amounts will be payable under these indemnities until all claims exceed 1% of the Purchase Price. The total maximum liability under the indemnities will be limited to 50% of the Purchase Price.

Canfor's obligation to indemnify the Partnership in respect of the representations and warranties of Canfor will survive the Effective Date for a period of 12 months, except for (a) title representations, which will survive without limitation of time, (b) obligations relating to taxation matters, which will survive until 90 days after the end of the applicable reassessment and appeal periods, and (c) obligations related to environmental matters, which will survive for

a period of 24 months. These indemnification obligations are the sole remedy of the Partnership against Canfor under the Acquisition Agreement.

Other Material Agreements

Fibre Supply Agreement

Under the Fibre Supply Agreement, Canfor will supply the Partnership with all of the residual wood chips and hog fuel produced at specified Canfor sawmills in the Prince George region. Prices paid by the Partnership will be determined based upon the market for fibre in the interior of British Columbia and will be subject to periodic adjustment to reflect market prices.

See Appendix E — “The Pulp Business — Fibre Supply — Fibre Supply Agreement”.

Exchange Agreement

On completion of the Spinout, the Fund, the Trust, the Partnership and Canfor will enter into the Exchange Agreement. The following is a summary of certain provisions of the Exchange Agreement, which summary is not intended to be complete. Reference is made to the Exchange Agreement for the full text of its provisions.

Under the Exchange Agreement, Canfor (or any transferee of its GP Shares and Class B Exchangeable LP Units) will be entitled to indirectly exchange its holdings of Class B Exchangeable LP Units and GP Shares for Fund Units on the basis of one Fund Unit in exchange for one Class B Exchangeable LP Unit and one GP Share, subject to adjustment. Alternatively, at Canfor’s election, Class B Exchangeable LP Units and GP Shares may be exchanged for a cash payment equal to the net proceeds of an underwritten offering of the applicable number of Fund Units, subject to the Fund’s ability to complete an underwritten offering of the applicable number of Fund Units on terms acceptable to the independent Fund Trustees and Canfor (or its transferee). These rights of exchange will be subject to the restrictions respecting non-resident ownership contained in the Fund Declaration as described in Appendix E under the heading “Description of the Fund and Fund Units — Limitations on Non-Resident Ownership”. The Exchange Agreement will contain customary anti-dilution provisions to preserve the economic equivalence of one Class B Exchangeable LP Unit and one GP Share with one Fund Unit.

Under the Exchange Agreement, the Fund and the Trust will agree not to take, directly or indirectly, any of the following actions without the prior written approval of the board of directors of the General Partner: (a) make any investment (whether or not for consideration) in any person other than the Partnership; (b) issue any Fund Units or other securities or repurchase outstanding Fund Units or other securities other than pursuant to the exercise of the liquidity and exchange rights granted to Canfor (and any transferee) under the Exchange Agreement, or the redemption rights in the Fund Declaration or the Trust Declaration; or (c) issue any debt securities (other than, in the case of the Trust, pursuant to the Note Indenture) or guarantee the indebtedness of any third party, other than the obligations of the Partnership under the New Credit Facilities.

The Exchange Agreement will provide that the Fund will, at the request of Canfor (or its transferee) on up to 10 occasions qualify for distribution under Canadian provincial and territorial securities laws all or any portion of the Fund Units owned, directly or indirectly, by Canfor (or its transferee), subject to certain restrictions, including only one prospectus offering per 6 month period and a \$25 million minimum offering size. The agreement will also provide Canfor with “piggy-back” registration rights, subject to certain restrictions, requiring the Fund to qualify for distribution under applicable securities laws all or any portion of the Fund Units owned, directly or indirectly, by Canfor in the event that the Fund proposes to qualify Fund Units for distribution. The costs of any public offerings of Fund Units owned, directly or indirectly, by Canfor, will be borne by Canfor (or its transferee). The Fund will indemnify, or contribute to any amount paid or payable by, Canfor for certain losses, claims, damages or liabilities incurred in connection with any qualification for distribution of Fund Units.

The Exchange Agreement may be assigned, in whole or in part, by Canfor (upon notice to the Trust and the Fund) to any transferee of Class B Exchangeable LP Units and GP Shares, other than the Fund and the Trust. The Exchange Agreement will terminate on the date that the Fund has acquired, directly or indirectly, all of the outstanding Class B Exchangeable LP Units or upon the agreement of all of the holders of Class B Exchangeable LP Units.

Shareholders’ Agreement

On completion of the Spinout, the Trust and Canfor, as the sole holders of the GP Shares, and the General Partner, the Partnership and the Fund will enter into the Shareholders’ Agreement with respect to the interests of the Trust and

Canfor in their GP Shares. The following is a summary of certain provisions of the Shareholders' Agreement, which summary is not intended to be complete. Reference is made to the Shareholders' Agreement for the full text of its provisions.

Board. The Shareholders' Agreement will provide that the board of directors of the General Partner will be comprised of seven directors. So long as Canfor holds, directly or indirectly, not less than a 30% Partnership Interest, Canfor will be entitled to appoint four directors of the General Partner, three of whom must be "resident Canadians" (as defined in the CBCA) and two of whom must be "independent" (as such term is defined under applicable Canadian securities laws). If Canfor's Partnership Interest falls below 30%, but is not less than 20%, Canfor will be entitled to appoint three directors (one of whom must be "independent" and two of whom must be "resident Canadians"); if Canfor's Partnership Interest falls below 20%, but is not less than 10%, Canfor will be entitled to appoint two directors (neither of whom must be "independent" but one of whom must be a "resident Canadian"); if Canfor's Partnership Interest falls below 10%, but is not less than 5%, Canfor will be entitled to appoint one director (who does not need to be "independent" or a "resident Canadian"); and if Canfor's Partnership Interest falls below 5%, Canfor will cease to have any right to appoint directors of the General Partner. The Shareholders' Agreement will permit the Trust to appoint the balance of the directors of the General Partner, provided that each of the Trust's appointees must be a Fund Trustee.

Committees of the Board. The Shareholders' Agreement will provide that the board of directors of the General Partner will have an Audit Committee, a Nominating Committee, a Compensation Committee and such other committees as may be determined from time to time by the board of directors. Each of the committees will consist of three members. Canfor is entitled to appoint one of the members of each of the committees for so long as it holds at least a 10% Partnership Interest and Canfor's nominee on the Audit Committee shall be the chair of the Audit Committee for so long as Canfor holds at least a 20% Partnership Interest. Canfor's right to nominate members of each of the committees shall be subject to the requirement that Canfor's nominees be "independent". The balance of the members of each committee will be appointed by the board of directors of the General Partner.

Nomination of Fund Trustees and Trust Trustees. The number of Fund Trustees shall be equal to the number of directors the Trust is entitled to appoint as directors of the General Partner. Initially, the number of Fund Trustees shall be three, consisting of Stan Bracken-Horrocks, Donald Campbell and Charles Jago. A majority of the Fund Trustees must be Canadian citizens resident in Canada. The Fund Trustees shall be nominated from time to time by the board of directors of the General Partner after considering the recommendation of the Nominating Committee. All nominees for Fund Trustee proposed by the board shall be independent of Canfor. Unitholders are not required to vote in favour of these nominees, and may elect the Fund Trustees as they see fit. The chair of the board of the Fund Trustees shall be appointed by the Fund Trustees.

The Shareholders' Agreement will provide that there shall be three Trust Trustees, initially Stan Bracken-Horrocks, Donald Campbell and Charles Jago. A majority of the Trust Trustees must be Canadian citizens resident in Canada. The Trust Trustees shall be appointed by the Fund from time to time, provided that each of the Fund's appointees must be a Fund Trustee.

Transfers. The Shareholders' Agreement will provide that no transfer of GP Shares to any person (whether such person already holds, directly or indirectly, GP Shares or otherwise) will be permitted (other than pursuant to the exercise of the liquidity rights or exchange rights under the Exchange Agreement) unless the transferor transfers (or causes to be transferred, where such interest is held indirectly) an identical number of LP Units concurrently to the same person and such person agrees to be bound by the provisions of the Shareholders' Agreement. Any purported transfer by a shareholder of any GP Shares without a transfer of an identical number of LP Units held by that shareholder will be void to the maximum extent permitted by law. The Shareholders' Agreement will permit the pledge of GP Shares and LP Units to a bank or other financial institution for the purpose of securing borrowings, subject to certain restrictions.

Assignment. The Shareholders' Agreement may not be assigned by any party without the written consent of all of the other parties to the agreement, except by Canfor to an affiliate of Canfor which agrees to be bound by the Shareholders' Agreement. However, such affiliate is only entitled to exercise Canfor's rights to appoint members of the board of directors of the General Partner and members of committees of the board of the General Partner and to approve certain matters (as described under "—Shareholders' Approval for Certain Matters" below) for so long as it remains an affiliate of Canfor.

Share Issuance and Pre-emptive Rights. The Shareholders' Agreement will provide that, subject to certain limited exceptions, if the Partnership authorizes the issuance of additional LP Units, or securities convertible into LP Units, it shall offer to sell to Canfor and to the Trust such LP Units or securities convertible into LP Units in proportion to their respective then current direct or indirect Partnership Interests. The Shareholders' Agreement will also provide that, subject to certain limited exceptions, if the Fund authorizes the issuance of additional Fund Units or securities convertible into Fund Units, then it shall offer to sell to Canfor such Fund Units or other securities, as the case may be, in proportion to Canfor's then current direct or indirect Partnership Interest. Canfor may exercise its pre-emptive right, in whole or in part, by either purchasing additional Fund Units or purchasing additional LP Units.

These pre-emptive rights will also apply in respect of the issuance of certain non-bank indebtedness by the Fund or the Partnership.

Take-Over Bids. The Shareholders' Agreement will provide that Canfor shall not transfer any GP Shares or LP Units, other than to one or more of its affiliates in accordance with the terms of the Shareholders' Agreement or to the Trust, unless (a) the transferee would not be required under applicable securities legislation as a result of such transfer to make an offer to all holders of Fund Units to acquire such units on the same terms and conditions if, immediately prior to such transfer, all outstanding LP Units had been exchanged for Fund Units in accordance with the terms of the Exchange Agreement, or (b) the transferee makes a contemporaneous offer to Unitholders for Fund Units on the same terms and conditions (in terms of price, timing and proportion of securities sought to be acquired) and does not acquire such GP Shares or LP Units unless the offeror also acquires a proportionate number of Fund Units tendered to such offer, if any.

Shareholders' Approval for Certain Matters. The Shareholders' Agreement will provide that, so long as Canfor's Partnership Interest is not less than 20%, the General Partner shall not, either on its own behalf or on behalf of the Partnership, without the affirmative vote of the directors of the General Partner and the written consent of Canfor as a shareholder of the General Partner:

- (a) enter into any merger, amalgamation, consolidation, business combination, joint venture or other material corporate transaction, including the acquisition of property or assets with a fair market value in excess of \$25 million;
- (b) adopt any plan or proposal for a complete or partial liquidation or dissolution or any reorganization or commence any case, proceeding or action seeking relief under any laws relating to bankruptcy or insolvency;
- (c) take, or permit to be taken, any action that would prevent the Pulp Business, as it exists on the Effective Date, from continuing on an ongoing basis;
- (d) change the size of the board of directors of the General Partner;
- (e) enter into any agreement or make any offer or grant any right capable of becoming an agreement to allot or issue a number of GP Shares and LP Units or any combination of the foregoing, in each case where the aggregate number of GP Shares and LP Units to be issued or allotted exceeds 5% of the total number of such securities then outstanding;
- (f) enter into any agreement or make any offer or grant any right capable of becoming an agreement to allot or issue any shares or units of a subsidiary of the General Partner to any person other than the General Partner or one of its wholly-owned subsidiaries;
- (g) take any action which could reasonably be expected to lead to or result in a material change in the nature of the business of the Partnership;
- (h) sell, lease, exchange or dispose of property or assets with a fair market value in excess of \$25 million, other than the sale or disposition of inventory in the ordinary course of business;
- (i) take, hold, subscribe for or agree to purchase or acquire shares in the capital of any body corporate with a fair market value in excess of \$25 million;
- (j) enter into a partnership or any arrangement for a sharing of profits, union of interests, joint venture or reciprocal concession with any person if the aggregate fair market value of the assets contributed and liabilities assumed by the Partnership in connection therewith either exceeds on formation, or at any time in the future could reasonably be expected to exceed, \$25 million;

- (k) directly or indirectly participate in any business other than the pulp and paper business; or
- (l) make any commitment or agreement to do any of the foregoing.

Canfor will be entitled to provide or withhold its written consent to any such action in its sole discretion, and shall have no obligation to consider the interests of the Trust or the Fund in doing so.

Term. The Shareholders' Agreement will continue in force until the earlier of (a) the date on which it is terminated by the written agreement of all the shareholders of the General Partner; or (b) the date on which the Fund holds, directly or indirectly, greater than 95% of the outstanding GP Shares. The restrictions on transfer of the GP Shares and the LP Units will survive the termination of the Shareholders' Agreement, so long as there is more than one shareholder of the General Partner.

Partnership Services Agreement

Concurrently with the execution of the Acquisition Agreement, Canfor and the Partnership will enter into the Partnership Services Agreement, pursuant to which Canfor will provide the Partnership with certain specified services in order to facilitate the transfer of operations and support the sale of the Pulp Business to the Partnership. The services to be provided by Canfor will include corporate secretarial, financial, internal audit, maintenance, inventory and purchasing systems, hourly payroll and time entry systems, production tracking systems and software and technology support. Canfor will not receive any fee for the provision of these services but will be entitled to be reimbursed for its direct and indirect costs and expenses. The Partnership Services Agreement will be terminable, in whole or in part, at the election of the General Partner or Canfor, upon 12 months' written notice.

Fund Support Agreement

Except as expressly prohibited by law, the Fund Declaration and the Trust Declaration permit the Fund Trustees and the Trust Trustees, respectively, to grant or delegate certain of their authority to effect the actual administration of their duties under the Fund Declaration and the Trust Declaration. The Fund Trustees and the Trust Trustees may grant broad discretion to a third party to administer and manage the Fund's and the Trust's day-to-day operations.

On completion of the Spinout, the Fund, the Trust, the Partnership and the General Partner will enter into the Fund Support Agreement whereby the Partnership will agree, subject to the supervision of the Fund Trustees and the Trust Trustees, where applicable, to provide or arrange for the provision of services required in the Fund's and the Trust's administration, including those necessary to (a) effect the Fund's compliance with continuous disclosure obligations under applicable securities legislation, including the preparation of financial statements; (b) provide investor relations services; (c) provide or cause to be provided to Unitholders all information to which Unitholders are entitled under the Fund Declaration or the Trust Declaration, including relevant information with respect to income taxes; (d) assist in the calling and holding of meetings of Unitholders and distribute required materials, including notices of meetings and information circulars, in respect of all such meetings; (e) provide for the preparation of calculations to assist the Fund Trustees and the Trust Trustees in determining the distributions to Unitholders; (f) attend to all administrative matters arising in connection with any redemptions of Fund Units; (g) effect compliance with limitations on non-resident ownership; and (h) provide general accounting, bookkeeping and administrative services. The Fund Support Agreement may be terminated by the Fund and the Trust upon payment to the Partnership of all costs and expenses incurred by the Partnership in terminating contracts entered into by it with third parties (provided such contracts were approved by the Fund or the Trust, as the case may be) for the performance by the Partnership of its duties under the Fund Support Agreement.

The Partnership will pay all expenses incurred by it and attributable to the exercise of its duties in the administration of the Fund and the Trust. The Fund will reimburse all the expenses incurred by the Partnership on the Fund's behalf and will pay the Partnership an annual fee not to exceed \$100,000.

New Credit Facilities

In connection with the Spinout, on the Effective Date Canfor will provide the Partnership with financial support by accepting the Promissory Note and by financing, on a revolving basis through its cash reserves, changes in the Partnership's working capital. This financial support will be provided on an unsecured basis and will bear interest at market rates. This financial support will be repaid through advances made under the New Credit Facilities, which are expected to be in place within 90 to 180 days after the Effective Date.

The Partnership has received expressions of interest from a number of commercial lenders in respect of the New Credit Facilities, which will provide the Partnership with aggregate financing of up to \$200 million, consisting of (a) a Revolving Facility (to be used by the Partnership for general corporate and working capital purposes); and (b) a non-revolving Term Facility, the proceeds of which will be used to repay the Promissory Note.

Revolving Facility

The Partnership anticipates that the Revolving Facility will be available for general corporate purposes, including fees and expenses associated with the Acquisition and, subject to certain limits, payment of cash distributions by the Partnership and that letters of credit will also be available under the Revolving Facility on customary terms for facilities of this nature.

Term Facility

The Partnership anticipates that the Term Facility will be used to repay the Promissory Note and will be scheduled to mature not less than three years after the Effective Date with no scheduled repayments of principal required prior to maturity.

Terms of New Credit Facilities

The Partnership anticipates that advances under the Revolving Facility will be repayable without any prepayment penalties and will bear interest at the prevailing prime rate, U.S. base rate, bankers' acceptance rate or LIBOR plus, in each case, an applicable margin to those base rates. All of the assets of the Partnership (including of its subsidiaries) will be secured in support of the Partnership's obligations under the New Credit Facilities. The New Credit Facilities will be without recourse to either the Trust or Canfor, except to the extent of their respective liabilities as limited partners in the Partnership.

The New Credit Facilities will be subject to customary terms and conditions for issuers of this nature, including limits on granting liens or selling assets without the consent of the lenders. The New Credit Facilities are expected to be subject to the maintenance of a maximum ratio of total debt to EBITDA and a minimum ratio of EBITDA to interest expense. The New Credit Facilities may in certain circumstances restrict the Partnership's ability to pay distributions on its LP Units, including limiting distributions to the amount of Distributable Cash generated over a specified period.

The Partnership may seek to implement a hedging program to mitigate interest rate exposure under the New Credit Facilities.

Required Approvals

Completion of the Spinout is subject to receipt of a number of regulatory and other approvals, including approval by Registered Canfor Shareholders and the Court. Further details in respect of certain of these approvals are set out below.

Registered Canfor Shareholder Approval

Under the Interim Order, the Arrangement Resolution must be approved by at least two-thirds of the votes cast by the Registered Canfor Shareholders present in person or by proxy at the Meeting.

Court Approvals

Interim Order

On April 27, 2006, the Court granted the Interim Order facilitating the calling of the Meeting and prescribing the conduct of the Meeting and other matters, including the Dissent Rights. The Interim Order is included in Appendix B to this Information Circular.

Final Order

The BCBCA provides that an arrangement requires Court approval. If the Arrangement Resolution is passed by Registered Canfor Shareholders at the Meeting in the manner required by the Interim Order, Canfor intends to apply to the Court for the Final Order.

The application for the Final Order approving the Arrangement is scheduled for June 15, 2006, at 9:45 a.m. (Vancouver time), or as soon thereafter as counsel may be heard, at the Courthouse, 800 Smithe Street, Vancouver,

British Columbia. At the hearing, any Registered Canfor Shareholder and any other interested party who wishes to participate or to be represented or to present evidence or argument may do so, subject to filing with the Court and serving upon Canfor a form entitled "Appearance", together with any evidence or materials which such party intends to present to the Court, on or before 5:00 p.m. (Vancouver time) on June 13, 2006. Service of such notice shall be effected by service upon Counsel: Stikeman Elliott LLP, Suite 1700, 666 Burrard Street, Vancouver, British Columbia, V6C 2X8, Attention: David R. Brown. See the Notice of Petition included in Appendix B to this Information Circular.

The Final Order will constitute the basis for an exemption from the registration requirements of the 1933 Act with respect to the New Common Shares to be issued to Canfor Shareholders and the Fund Units to be issued to Canfor Shareholders other than Non-Qualified U.S. Canfor Shareholders pursuant to the Spinout. The Court will be advised at the hearing of the application for the Final Order that if the terms and conditions of the Arrangement are approved and the Final Order is granted by the Court, the securities exchanged pursuant to the Arrangement will not require registration under the 1933 Act.

Canfor has been advised by Counsel that the Court has broad discretion under the BCBCA 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 in such manner the Court may direct, subject to compliance with such terms and conditions, if any, as the Court thinks fit. Depending upon the nature of any required amendments, Canfor may determine not to proceed with the Arrangement.

Stock Exchange Listings

It is a condition to the completion of the Arrangement that the TSX shall have conditionally approved the listing of the New Common Shares, in substitution for the listing of the Canfor Shares, and the listing of the Fund Units, subject only to the filing of required documents which cannot be filed prior to the Effective Date. The requirements of the TSX for such listings are expected to be met on the Effective Date or soon thereafter. Listing will be subject to Canfor and the Fund, as the case may be, fulfilling all of the listing requirements of the TSX including, in the case of the Fund, meeting the TSX original listing requirements.

Tax Matters

Completion of the Spinout is subject to Canfor's receipt of satisfactory advice from Counsel as to the Canadian tax consequences of the Spinout to Canfor and the Canfor Shareholders.

Recommendation of the Board of Directors

The Board of Directors has unanimously concluded that the Spinout is in the best interests of Canfor and Canfor Shareholders and recommends that Canfor Shareholders vote in favour of the Arrangement Resolution.

Management of Canfor understands that all of the directors and officers of Canfor presently intend to vote the Canfor Shares owned, or over which control and direction is exercised, by them in favour of the Arrangement Resolution. As of April 27, 2006, the directors and officers of Canfor owned, or exercised control and direction over, approximately 20.83% of the issued and outstanding Canfor Shares.

Timing

If the Meeting is held as scheduled and is not adjourned and the other necessary conditions at that time are satisfied or waived, Canfor will apply for the Final Order approving the Arrangement. If the Final Order is obtained on June 15, 2006 in form and substance satisfactory to Canfor, and all other conditions set forth in the Arrangement Agreement are satisfied, Canfor expects the Effective Date will be on or about July 1, 2006. It is not possible, however, to forecast with certainty when the Effective Date will occur. The Effective Date could be delayed for a number of reasons, including an objection before the Court at the hearing of the application for the Final Order.

The Arrangement will become effective at the Effective Time.

Procedure for Exchange of Certificates

Registered Canfor Shareholders, other than Dissenting Shareholders, must deposit their certificates formerly representing Canfor Shares in exchange for certificates representing New Common Shares and must designate the broker or other CDS participant through which they will hold their Fund Units by properly completing and returning to

the Depository the enclosed Letter of Transmittal (printed on blue paper), together with the certificates formerly representing their Canfor Shares and/or any other documents contemplated by the Letter of Transmittal. Until Registered Canfor Shareholders deposit certificates formerly representing their Canfor Shares together with properly completed Letters of Transmittal, they will not receive certificates for their New Common Shares and their Fund Units will be held by the Depository on a non-certificated basis.

Registration of interests in and transfers of Fund Units will be made only through participants in CDS. In order to receive the distributions paid on Fund Units, Registered Canfor Shareholders must designate in the Letter of Transmittal a broker or other CDS participant through which they will hold their Fund Units. All rights of Unitholders must be exercised through, and all payments and other property to which a Unitholder is entitled will be made or delivered by, CDS or the CDS participant through which the Unitholder holds its Fund Units.

Only Registered Canfor Shareholders may complete a Letter of Transmittal. A Beneficial Canfor Shareholder whose Canfor Shares are held through a broker or other market intermediary must arrange for the Registered Canfor Shareholder holding its Canfor Shares to deliver to the Depository a Letter of Transmittal together with the certificate or certificates formerly representing that Beneficial Shareholder's Canfor Shares.

Where a certificate for Canfor Shares has been destroyed, lost or stolen, the registered holder of that certificate should immediately contact the Depository toll free at 1-800-387-0825 regarding the procedures to be followed either to obtain a replacement certificate or to submit a Letter of Transmittal without a replacement certificate.

On and after the Effective Time, all certificates that represented Canfor Shares immediately prior to the Effective Time will cease to represent any rights with respect to Canfor Shares and, other than in respect of Dissent Shares, will only represent the right of a Registered Canfor Shareholder to receive New Common Shares and to designate the broker or other CDS participant through which it will hold its Fund Units. No dividends or other distributions, if any, in respect of New Common Shares or Fund Units declared or payable after the Effective Time will be paid to the holders of any unsurrendered certificates formerly representing Canfor Shares until the certificates formerly representing those Canfor Shares, together with properly completed Letters of Transmittal, are deposited as provided in the Plan of Arrangement. Subject to applicable law, after a Registered Canfor Shareholder deposits the certificates formerly representing its Canfor Shares, together with a properly completed Letter of Transmittal, that holder will be entitled to receive any such dividends or distributions declared or payable after the Effective Time and prior to the surrender of its certificates formerly representing Canfor Shares, without interest, which will have become payable with respect to the New Common Shares and Fund Units to which the holder is entitled.

No fractional Fund Units will be transferred to Registered Canfor Shareholders. Any Registered Canfor Shareholder otherwise entitled to receive a fraction of a Fund Unit will instead receive a cash payment equal to the product of that fractional interest and the Average Trading Price of Fund Units.

Any use of mail to transmit certificate(s) for Canfor Shares and the related Letter of Transmittal is at the risk of the holder. If these documents are mailed, it is recommended that holders use registered mail.

Certificates representing the appropriate number of New Common Shares issuable to a Registered Canfor Shareholder who has properly submitted a Letter of Transmittal together with the certificate(s) formerly representing its Canfor Shares and/or any other required documents will, as soon as practicable after the Effective Date (a) be forwarded to the Registered Canfor Shareholder at the address specified in the Letter of Transmittal by first class mail, (b) be made available at an office of the Depository for pick up by the Registered Canfor Shareholder if so requested by the holder in the Letter of Transmittal, or (c) if the Letter of Transmittal neither specifies an address nor contains a request as described in (b), be forwarded to the Registered Canfor Shareholder at the address of such holder as shown in the central securities register of Canfor as at the Effective Time.

If a Registered Canfor Shareholder has not deposited a duly completed Letter of Transmittal together with the certificate(s) formerly representing its Canfor Shares on or prior to the sixth anniversary of the Effective Date, its entitlement to the New Common Shares and Fund Units and dividends or distributions paid thereon shall cease and be surrendered to Canfor.

U.S. Canfor Shareholders

Each U.S. Canfor Shareholder who otherwise satisfies the requirements for treatment as a Qualified U.S. Canfor Shareholder will receive Fund Units distributable to Registered Canfor Shareholders under the Arrangement if such

U.S. Canfor Shareholder, on or prior to the Effective Date, submits (and does not withdraw) a Qualified Purchaser Certification, the form of which is attached to the Letter of Transmittal, certifying such U.S. Canfor Shareholder's status as a Qualified U.S. Canfor Shareholder.

Each U.S. Canfor Shareholder who (a) submits a Qualified Purchaser Certification certifying such U.S. Canfor Shareholder's status as a Non-Qualified U.S. Canfor Shareholder or (b) fails to submit a Qualified Purchaser Certification on or prior to the Effective Date will not receive Fund Units. Instead, the Fund Units that each such U.S. Canfor Shareholder would otherwise have received will be pooled and sold in the Canadian market as soon as practicable following the Effective Date on behalf of all such U.S. Canfor Shareholders, and each such U.S. Canfor Shareholder will receive a cash payment representing such shareholder's *pro rata* interest in the net proceeds from the sale of such pooled Fund Units (net of withholding taxes). For each U.S. Canfor Shareholder who submits, on or before the Effective Date, a properly completed and executed Qualified Purchaser Certification certifying that such shareholder is a Non-Qualified U.S. Canfor Shareholder, Canfor will pay the fees and costs associated with such pooling and sale.

See “— U.S. Regulatory Matters”.

Certain Canadian Federal Income Tax Considerations

In the opinion of Counsel, the following summary fairly describes the principal Canadian federal income tax considerations under the Tax Act to Canfor Shareholders who dispose of their Canfor Shares pursuant to the Arrangement and receive New Common Shares and Fund Units in exchange therefor. This summary is applicable to a Canfor Shareholder who, for purposes of the Tax Act, deals at arm's length with and is not affiliated with Canfor and holds Canfor Shares and will hold New Common Shares and Fund Units as capital property. Generally, Canfor Shares, New Common Shares and Fund Units will be considered to be capital property to a holder provided the holder does not use or hold the Canfor Shares, New Common Shares or Fund Units, as the case may be, in the course of carrying on a business of buying or selling securities and did not acquire them in one or more transactions considered to be an adventure or concern in the nature of trade. Certain Canfor Shareholders who are resident in Canada and who might not otherwise be considered to hold their Canfor Shares, New Common Shares or Fund Units as capital property may, in certain circumstances, be entitled to have them, and any other “Canadian security” (as defined in the Tax Act), treated as capital property by making the irrevocable election permitted by subsection 39(4) of the Tax Act. Canfor Shareholders contemplating making such an election should first consult their own tax advisors. This summary is not applicable to a Canfor Shareholder that is a “financial institution” or a “specified financial institution”, or an interest in which would be a “tax shelter investment”, all as defined in the Tax Act.

This summary is based upon the facts set out in the Information Circular, certificates as to certain factual matters provided by Canfor and the Fund, the provisions of the Tax Act in force as of the date of the Information Circular, all specific proposals to amend the Tax Act that have been publicly announced by or on behalf of the Minister of Finance (Canada) prior to the date of the Information Circular (the “**Proposed Amendments**”) and Counsel's understanding of the current published administrative practices of the CRA. This summary is not exhaustive of all possible Canadian federal income tax considerations and, except for the Proposed Amendments, does not take into account any changes in the law, whether by legislative, governmental or judicial action, nor does it take into account provincial, territorial or foreign tax considerations, which may differ significantly from those discussed herein. No assurance can be given that the Proposed Amendments will be enacted as currently proposed or at all. Canfor has applied to the CRA for an advance tax ruling in respect of some of the tax consequences discussed in this summary.

This summary is of a general nature only and is not intended to be, nor should it be construed to be, legal or tax advice or representations to any particular Canfor Shareholder. Canfor Shareholders should consult their own tax advisors concerning the tax consequences to them of the Arrangement having regard to their particular circumstances.

The Arrangement

Canfor Shareholders Resident in Canada

The following portion of the summary is applicable to a Canfor Shareholder who is, or is deemed to be, resident in Canada for purposes of the Tax Act.

Canfor Shareholders Filing a Section 85 Election. A Canfor Shareholder (other than a Dissenting Shareholder) may make a joint election with Canfor pursuant to subsection 85(1) of the Tax Act (or, in the case of a Canfor

Shareholder that is a partnership, pursuant to subsection 85(2) of the Tax Act) and thereby obtain a full or partial tax deferred “rollover” for Canadian income tax purposes, depending on the Elected Amount(s) and the adjusted cost base to the Canfor Shareholder of such holder’s Canfor Shares. So long as the adjusted cost base to the Canfor Shareholder of such holder’s Canfor Shares immediately before the Effective Date equals or exceeds the fair market value, as at the Effective Date, of the Fund Units received by such Canfor Shareholder, the Canfor Shareholder may elect so as to not realize a capital gain for the purposes of the Tax Act. Canfor Shareholders should consult their own tax advisers regarding this “rollover” treatment and the corresponding provincial “rollover” rules applicable for provincial income tax purposes.

In general, where a joint election under section 85 of the Tax Act is made by Canfor and a Canfor Shareholder in respect of the exchange of the Canfor Shareholder’s Canfor Shares for New Common Shares and Fund Units pursuant to the Plan of Arrangement, the Elected Amount must comply with the following rules:

1. The Elected Amount may not be less than the fair market value as at the Effective Date of the Fund Units received by the Canfor Shareholder.
2. The Elected Amount may not be less than the lesser of the adjusted cost base to the Canfor Shareholder of the Canfor Shares immediately before the Effective Date and the fair market value of such shares at that time.
3. The Elected Amount may not exceed the fair market value, as at the Effective Date, of the Canfor Shares to which the election applies.

Where such an election is made, the tax treatment to the Canfor Shareholder will, in general, be as follows:

1. The Canfor Shareholder will be deemed to have disposed of the Canfor Shares for proceeds of disposition equal to the Elected Amount.
2. If the proceeds of disposition of the Canfor Shares are equal to the aggregate of the adjusted cost base to the Canfor Shareholder of such shares, determined immediately before the Effective Date, and any reasonable costs of disposition, no capital gain or capital loss will be realized by the Canfor Shareholder.
3. To the extent that the proceeds of disposition of the Canfor Shares exceed (or are less than) the aggregate of the adjusted cost base thereof to the Canfor Shareholder, determined immediately before the Effective Date, and any reasonable costs of disposition, the Canfor Shareholder will, in general, realize a capital gain (or capital loss).
4. The cost to the Canfor Shareholder of the Fund Units received on the exchange will be equal to the fair market value thereof as at the Effective Date, and the cost to the Canfor Shareholder of the New Common Shares received on the exchange will be equal to the amount by which the proceeds of disposition of the Canfor Shares exchanged by the Canfor Shareholder exceed the fair market value of the Fund Units and any cash in lieu of a fractional Fund Unit received on the exchange.

The treatment of any capital gain or capital loss would be as described below under the heading “— Taxation of Capital Gains and Capital Losses”.

In order to make an election under section 85 of the Tax Act, a Canfor Shareholder must provide to the Depository two signed copies of the necessary prescribed election form within 90 days following the Effective Date, duly completed with the details of the number of Canfor Shares transferred and the applicable Elected Amount(s) for the purposes of the election. In accordance with the Plan of Arrangement, subject to the election form being in apparent compliance with the provisions of the Tax Act, the form, signed by Canfor, will be returned to the Canfor Shareholder for filing by the Canfor Shareholder with the CRA.

The relevant tax election form is CRA form T2057 (or, in the event that the Canfor Shares are held as partnership property, CRA form T2058). For Canfor Shareholders required to file in Québec, Québec Form TP-518V (or, in the event that the Canfor shares are held as partnership property, Québec Form TP-529V) will also be required. **A Canfor Shareholder interested in making an election under section 85 should so indicate on the Letter of Transmittal accompanying this Circular in the space provided therein and a tax election package will be sent to the Canfor Shareholder.**

Where the Canfor Shares are held in joint ownership and two or more of the co-owners wish to elect, one of the co-owners designated for such purpose should file the designation and a copy of the CRA election form T2057 (and, where applicable, the corresponding Québec form) for each co-owner along with a list of all co-owners electing, which

list should contain the address and social insurance number or tax account number of each co-owner. Where the Canfor Shares are held as partnership property, a partner designated by the partnership must file a copy of CRA election form T2058 on behalf of all members of the partnership (and, where applicable, the corresponding Québec form in duplicate with the Québec taxation authorities). Such CRA election form T2058 (and, where applicable, the corresponding Québec form) must be accompanied by a list containing the name, address, social insurance number or tax account number of each partner as well as the letter signed by each partner authorizing the designated partner to complete and file the form.

Canfor will make an election pursuant to section 85 of the Tax Act only at the amount selected by the Canfor Shareholder, subject to the limitations set out in the Tax Act. Neither Canfor nor the Depositary will be responsible for the proper completion or filing of any election form and, except for Canfor's obligation to return duly completed election forms which are received by the Depositary within 90 days of the Effective Date, within 30 days after the receipt thereof by the Depositary, the Canfor Shareholder and not Canfor will be responsible or liable for any taxes, interest, penalties, damages or expenses resulting from the failure by the Canfor Shareholder to properly complete or file an election form in the form and manner and within the time prescribed by the Tax Act (or the corresponding provisions of any applicable provincial tax legislation). In its sole discretion, Canfor may choose to execute and return an election form received more than 90 days following the Effective Date, but Canfor will have no obligation to do so. Canfor agrees only to execute any apparently correct and complete election form received within 90 days of the Effective Date and to return the executed election form (within 30 days after the receipt thereof by the Depositary) to the Canfor Shareholder. With the exception of execution of the election by Canfor, compliance with the requirements for a valid election will be the sole responsibility of the Canfor Shareholder making the election.

In order for the CRA (and, where applicable, the Ministère du Revenu du Québec) to accept a tax election form without a late filing penalty being paid by a Canfor Shareholder, the election form, duly completed and executed by both the Canfor Shareholder and Canfor, must be received by the CRA on or before the day that is the earliest of the days on or before which either Canfor or the Canfor Shareholder is required to file an income tax return for the taxation year in which the Arrangement occurs. Canfor's taxation year is the calendar year. Thus, where the Arrangement occurs in 2006, the tax election form will, in the case of a Canfor Shareholder who is an individual, generally have to be received by the CRA by April 30, 2007 (being generally the day on or before which individuals are required to file tax returns for the 2006 taxation year). Canfor Shareholders other than individuals are urged to consult their own advisers as soon as possible respecting the deadlines applicable to their own particular circumstances.

However, regardless of such deadline, the tax election forms of Canfor Shareholders must be received by the Depositary no later than the 90th day after the Effective Date.

Any Canfor Shareholder who does not ensure that the Depositary has received a duly completed election form on or before the 90th day after the Effective Date, will not be able to benefit from such election (unless Canfor in its sole discretion, chooses to execute an election form received after such time). **Accordingly, Canfor Shareholders who wish to enter into an election with Canfor should give their immediate attention to this matter.** The instructions for requesting a tax election package are set out in the Letter of Transmittal. Canfor Shareholders are referred to Information Circular 76-19R3 and Interpretation Bulletin IT-291R2 issued by the CRA for further information with respect to making an election under section 85 of the Tax Act. Canfor Shareholders wishing to make the election should consult their own tax advisers. The comments herein with respect to such elections are provided for general assistance only. The law in this area is complex and contains numerous technical requirements.

Failure to File a Section 85 Election. A Canfor Shareholder (other than a Dissenting Shareholder) who does not file a valid joint election with Canfor pursuant to section 85 of the Tax Act may nevertheless qualify for "rollover" treatment on the exchange of their Canfor Shares for New Common Shares and Fund Units if it is determined that section 86 of the Tax Act applies to the exchange. The current administrative position of the CRA with respect to the application of section 86 to the exchange is uncertain. Although the matter is not free from doubt, Counsel is of the view that section 86 should apply to the exchange, and therefore the tax consequences of the exchange to a Canfor Shareholder who does not file a valid joint election with Canfor pursuant to section 85 of the Tax Act should be as described below. However, no assurance can be given in this regard. If section 86 does apply to the exchange, the Canadian federal income tax consequences to the Canfor Shareholder generally will be as follows:

- (a) The Canfor Shareholder will be deemed to have disposed of its Canfor Shares for proceeds of disposition equal to the greater of their adjusted cost base to the Canfor Shareholder immediately before the Effective

Date and the fair market value, as at the Effective Date, of the Fund Units and any cash in lieu of a fractional Fund Unit received by the Canfor Shareholder;

- (b) if the adjusted cost base of the Canfor Shareholder's Canfor Shares is less than the fair market value of the Fund Units and any cash in lieu of a fractional Fund Unit received by the Canfor Shareholder, then:
 - (i) the Canfor Shareholder will be deemed to realize a capital gain equal to the amount of the shortfall;
 - (ii) the Canfor Shareholder will be deemed to have acquired its New Common Shares at a cost, for Canadian income tax purposes, of nil; and
 - (iii) the Canfor Shareholder will be deemed to have acquired its Fund Units at a cost, for Canadian income tax purposes, equal to their fair market value at the Effective Date.

The treatment of any capital gain would be as described below under the heading “— Taxation of Capital Gains and Capital Losses”.

- (c) If the adjusted cost base of the Canfor Shareholder's Canfor Shares equals or exceeds the fair market value of the Fund Units and any cash in lieu of a fractional Fund Unit received by the Canfor Shareholder, then:
 - (i) the Canfor Shareholder will not realize any capital gain or capital loss as a result of the exchange;
 - (ii) the Canfor Shareholder will be deemed to have acquired its New Common Shares at a cost, for Canadian income tax purposes, equal to the amount by which the adjusted cost base of its Canfor Shares immediately before the Effective Date exceeds the fair market value of the Fund Units and any cash in lieu of a fractional Fund Unit received by the Canfor Shareholder; and
 - (iii) the Canfor Shareholder will be deemed to have acquired its Fund Units at a cost, for Canadian income tax purposes, equal to their fair market value at the Effective Date.

If a Canfor Shareholder does not file a valid joint election with Canfor pursuant to section 85 of the Tax Act, and it is ultimately determined that section 86 does not apply to the Arrangement, the Canfor Shareholder (other than a Dissenting Shareholder) will be considered to have disposed of their Canfor Shares for proceeds of disposition equal to the aggregate fair market value of the New Common Shares and Fund Units, and any cash in lieu of a fractional Fund Unit, received by the Canfor Shareholder on the exchange, and will realize a capital gain (or capital loss) to the extent such proceeds exceed (or are less than) the aggregate of the adjusted cost base of the Canfor Shareholder's Canfor Shares immediately before the Effective Date and any reasonable costs of the disposition. The Canfor Shareholder will be considered to have acquired the New Common Shares and Fund Units received on the exchange at a cost equal to their respective fair market values as at the Effective Date. The treatment of any capital gain or capital loss would be as described below under the heading “— Taxation of Capital Gains and Capital Losses”.

Taxation of Capital Gains and Capital Losses

Generally, one-half of a capital gain (the “taxable capital gain”) must be included in the Canfor Shareholder's income for the year in which the disposition takes place, and one-half of a capital loss (the “allowable capital loss”) must be deducted from taxable capital gains in the year of disposition. Allowable capital losses in excess of taxable capital gains for the year of disposition generally may be carried back up to three taxation years or forward indefinitely and deducted against net taxable capital gains of the Canfor Shareholder in those other taxation years.

In the case of a Canfor Shareholder that is a corporation, the amount of any capital loss realized on the disposition of a Canfor Share generally will be reduced by the amount of dividends previously received by the Canfor Shareholder on such Canfor Share, in accordance with detailed rules in the Tax Act. Similar rules apply where a corporation is a member of a partnership or a beneficiary of a trust that owns Canfor Shares.

A Canfor Shareholder that is throughout the relevant taxation year a “Canadian-controlled private corporation” (within the meaning of the Tax Act) generally would be required to pay an additional 6²/₃% refundable tax on its aggregate investment income, including taxable capital gains.

Capital gains realized by a Canfor Shareholder who is an individual may give rise to a liability for alternative minimum tax.

Dissenting Shareholders

A Dissenting Shareholder who is entitled to be paid fair value for his or her Canfor Shares will be deemed to receive a dividend equal to the amount by which the amount of such payment, excluding any portion thereof that is interest awarded by the court, exceeds the “paid-up capital” (within the meaning of the Tax Act) of the Dissenting Shareholder’s Canfor Shares. In the case of a Dissenting Shareholder that is a corporation, the amount of such deemed dividend may be recharacterized as a capital gain. Dissenting Shareholders that are corporations should consult their own tax advisors in this regard. Any interest awarded by the court will be required to be included in the Dissenting Shareholder’s income.

The Dissenting Shareholder will also be considered to have disposed of his or her Canfor Shares for proceeds of disposition equal to the amount paid to the Dissenting Shareholder by Canfor (other than the portion thereof that is deemed to be a dividend and any amount that is interest awarded by the court) and will realize a capital gain (or capital loss) to the extent that such proceeds of disposition exceed (or are less than) the aggregate of the adjusted cost base of the Dissenting Shareholder’s Canfor Shares immediately prior to the Effective Date and reasonable costs of the disposition.

The amount of any such capital loss realized by a Dissenting Shareholder that is a corporation generally will be reduced by the amount of dividends previously received or deemed to have been received by the Dissenting Shareholder on such Canfor Shares, including the amount of any dividend deemed to be received by the Dissenting Shareholder as a consequence of the repurchase of his or her Canfor Shares by Canfor, in accordance with detailed rules in the Tax Act in that regard. Similar rules apply where a corporation is a member of a partnership or a beneficiary of a trust that owns Canfor Shares.

Canfor Shareholders Not Resident in Canada

The following portion of the summary is applicable to a Canfor Shareholder who is not, and is not deemed to be, resident in Canada for purposes of the Tax Act and does not use or hold, and is not deemed to use or hold, his or her Canfor Shares in, or in the course of, carrying on a business in Canada (a “**Non-Resident Canfor Shareholder**”). Specific rules, which are not discussed herein, apply to a Canfor Shareholder that is a non-resident insurer that carries on an insurance business in Canada and elsewhere.

A Non-Resident Canfor Shareholder (other than a Dissenting Shareholder) will not be subject to tax under the Tax Act in respect of the Plan of Arrangement unless the Non-Resident Canfor Shareholder’s Canfor Shares constitute “taxable Canadian property”, within the meaning of the Tax Act, as at the Effective Date and the Non-Resident Canfor Shareholder is not entitled to relief under an applicable income tax treaty. A Non-Resident Canfor Shareholder’s Canfor Shares generally will not constitute “taxable Canadian property” as at the Effective Date unless (i) the Non-Resident Canfor Shareholder, persons with whom the Non-Resident Canfor Shareholder does not deal at arm’s length (within the meaning of the Tax Act), or the Non-Resident Canfor Shareholder together with such persons owned 25% or more of the issued shares of any class or series of the capital stock of Canfor at any time during the 60-month period immediately preceding the Effective Date, or (ii) the Non-Resident Canfor Shareholder’s Canfor Shares are deemed to be taxable Canadian property pursuant to a specific deeming rule in the Tax Act (generally, if they were acquired by the Non-Resident Canfor Shareholder in a tax-deferred transaction in exchange for other property that was, or was deemed to be, taxable Canadian property of the Non-Resident Canfor Shareholder).

A Non-Resident Canfor Shareholder whose Canfor Shares constitute taxable Canadian property generally will be required to compute a capital gain (if any) from the disposition of his or her Canfor Shares pursuant to the Plan of Arrangement in the same manner as a Canfor Shareholder who is resident in Canada, as described above under the heading “Canfor Shareholders Resident in Canada”. Non-Resident Canfor Shareholders whose Canfor Shares constitute taxable Canadian property should consult their own tax advisors with respect to any applicable Canadian tax payment and reporting requirements.

A Non-Resident Canfor Shareholder who is a Dissenting Shareholder will be deemed to receive a dividend equal to the amount by which the amount paid by Canfor to the Non-Resident Canfor Shareholder for his or her Canfor Shares, other than any portion thereof that is interest awarded by the court, exceeds the “paid-up capital” (within the meaning of the Tax Act) of the Non-Resident Canfor Shareholder’s Canfor Shares. Such deemed dividend will be subject to withholding tax under the Tax Act at a rate of 25%, subject to a reduction in the rate of such withholding under the terms of an applicable bilateral tax convention. Any interest awarded by the court to such Non-Resident

Canfor Shareholder will similarly be subject to withholding tax under the Tax Act at a rate of 25%, subject to a reduction in the rate of such withholding under an applicable bilateral tax convention.

Status of the Fund

Mutual Fund Trust

This summary is based upon the assumption that the Fund will, upon completion of the Arrangement, qualify as a “mutual fund trust” as defined in the Tax Act, and will thereafter continuously qualify as a “mutual fund trust”. This summary assumes that the Fund will elect to be deemed to be a “mutual fund trust” from the date that it is established. If the Fund does not qualify, or ceases to qualify, as a “mutual fund trust”, the income tax considerations described below would, in some respects, be materially different.

Qualified Investment

Provided that the Fund is a “mutual fund trust” on the completion of the Arrangement, the Fund Units will at that time be qualified investments for trusts governed by registered retirement savings plans, registered retirement income funds, deferred profit sharing plans and registered education savings plans, each as defined in the Tax Act (the “Plans”). If the Fund ceases to qualify as a “mutual fund trust”, then the Fund Units will cease to be qualified investments for Plans.

Series 2 Trust Notes or Series 3 Trust Notes received as a result of a redemption of Fund Units will not be qualified investments for Plans, which could give rise to adverse consequences to the Plan or the annuitant under the Plan. Accordingly, Plans that own Fund Units should consult their own tax advisors before deciding to exercise the redemption rights attached to the Fund Units.

Taxation of the Fund

The taxation year of the Fund is the calendar year. In each taxation year, the Fund will be subject to tax under Part I of the Tax Act on its income for the year, including net realized taxable capital gains, less the portion thereof that it deducts in respect of amounts that are paid or payable in the year to Unitholders. An amount will be considered to be payable to a Unitholder in a taxation year if it is paid to the Unitholder in the year by the Fund or if the Unitholder is entitled in that year to enforce payment of the amount.

The Fund will include in its income for each taxation year such portion of the income of the Trust, including net realized taxable capital gains, as is paid or payable or deemed to be paid or payable to the Fund in the year in respect of the Trust Units, and all interest on the Trust Notes that accrues to the Fund to the end of the year or that becomes receivable or is received by it before the end of the year (except to the extent such interest was included in computing its income for a preceding taxation year). The Fund will not be subject to tax on any payments of principal on the Trust Notes. The Fund will generally also not be subject to tax on any amounts received as distributions on the Trust Units that are in excess of the income of the Trust in a year, which amounts (except for the non-taxable portion of any capital gain realized by the Trust and deposited to the Fund) will generally reduce the adjusted cost base of the Trust Units to the Fund. Where the adjusted cost base of the Trust Units to the Fund would otherwise be a negative amount, the Fund will be deemed to realize a capital gain to the extent of such negative amount, and its adjusted cost base of the Trust Units will, immediately thereafter, be nil.

Redemptions of Trust Notes and Trust Units and distributions by the Fund of Trust Notes upon the redemption of Fund Units will be treated as dispositions by the Fund of the securities so redeemed or distributed for proceeds of disposition equal to their fair market value. The Fund’s proceeds from the disposition of the Trust Notes will generally be reduced by any accrued but unpaid interest in respect of those Trust Notes, which interest will generally be included in the Fund’s income in the year of disposition to the extent it was not included in the Fund’s income in a previous year. The Fund will realize a capital gain (or a capital loss) to the extent that the proceeds from each such disposition exceed (or are less than) the adjusted cost base of the relevant property and any reasonable costs of disposition. It is intended that the Fund will designate any such interest income and capital gains as being paid to the Unitholder(s) whose Fund Units were redeemed.

In computing its income, the Fund may deduct reasonable administrative costs and other expenses incurred by it for the purpose of earning income. The Fund may also deduct from its income for the year a portion of the expenses, if any, incurred by the Fund to issue Fund Units pursuant to the Arrangement. The portion of those issue expenses

deductible by the Fund in a taxation year is 20% of the issue expenses borne by the Fund, if any, pro rated where the Fund's taxation year is less than 365 days.

Under the Fund Declaration, an amount equal to all of the income of the Fund (determined without reference to paragraph 82(1)(b) and subsection 104(6) of the Tax Act) and net realized taxable capital gains, together with the non-taxable portion of any net capital gain realized by the Fund, but excluding income or capital gains arising on a redemption of Trust Notes or Trust Units in connection with a distribution in specie of Trust Notes on a redemption of Fund Units which are designated by the Fund to redeeming Unitholders, will be payable in the year to the Unitholders by way of cash distributions, subject to the exceptions described below. Income of the Fund which is applied to fund redemptions of Fund Units for cash or is otherwise unavailable for cash distributions will be distributed to Unitholders in the form of additional Fund Units. Income of the Fund payable to Unitholders, whether in cash, additional Fund Units or otherwise, will generally be deductible by the Fund in computing its income. As a consequence of such deductions, it is expected that the Fund generally will not be liable for any material amount of income tax.

The Fund will be entitled for each taxation year to reduce (or receive a refund in respect of) its liability, if any, for tax on its net realized taxable capital gains by an amount determined under the Tax Act based upon the redemption of Fund Units during the year (the "capital gains refund"). In certain circumstances, the "capital gains refund" in a particular taxation year may not completely offset the Fund's tax liability for that taxation year arising as a result of the redemption of Trust Notes or Trust Units in connection with the distribution of Trust Notes on the redemption of Fund Units. The Fund Declaration provides that any capital gain or income realized by the Fund as a result of that redemption may, at the discretion of the trustees, be treated as income or capital gain payable to the redeeming Unitholders. Such income and the taxable portion of any such capital gain must be included in the income of the redeeming Unitholders and will be deductible by the Fund.

Counsel has been advised that the Fund intends to make sufficient distributions in each year of its net income for tax purposes and net realized taxable capital gains so that the Fund will generally not be liable in that year for income tax under Part I of the Tax Act.

Taxation of the Trust

The taxation year of the Trust is the calendar year. The Trust will be taxable on its income determined under the Tax Act for each taxation year, which will include its allocated share of the income of the Partnership for its fiscal period ending on or before the year end of the Trust. The Trust will generally be entitled to deduct its expenses incurred to earn such income provided such expenses are reasonable and otherwise deductible, subject to the relevant provisions of the Tax Act. Under the Trust Declaration, all of the income of the Trust for each year (determined without reference to paragraph 82(1)(b) and subsection 104(6) of the Tax Act), together with the taxable and non-taxable portion of any capital gains realized by the Trust in the year, will generally be payable in the year to the Fund and will generally be deductible by the Trust in computing its taxable income.

Counsel has been advised that the Trust intends to make sufficient distributions in each year of its net income for tax purposes and net realized taxable capital gains so that the Trust generally will not be liable in that year for income tax under Part I of the Tax Act.

Generally, distributions received by the Trust from the Partnership in excess of the income of the Partnership for a taxation year will result in a reduction of the adjusted cost base of the Trust's LP Units by the amount of such excess. If, as a result, the Trust's adjusted cost base of its LP Units at the end of a taxation year would otherwise be a negative amount, the Trust will be deemed to realize a capital gain to the extent of such negative amount in that year, and the Trust's adjusted cost base of its LP Units at the beginning of the next taxation year will be nil. If the Partnership were to incur losses for income tax purposes, then the Trust's ability to deduct such losses may be limited by certain rules in the Tax Act.

The Trust is not exempt from alternative minimum tax because it is not a "mutual fund trust" under the Tax Act. As a result, alternative minimum tax could apply where in a year the Trust incurs deductible expenses in excess of its income (excluding capital gains) and is required to apply certain of these deductions against capital gains realized in the same year, thereby reducing the taxable capital gains distributions made to the Fund.

Taxation of the Partnership

The Partnership is not subject to tax under the Tax Act. Generally, each partner of the Partnership, including the Trust, is required to include in computing the partner's income for a particular taxation year the partner's share of the

income or loss of the Partnership, as the case may be, for its fiscal year ending in, or coincidentally with, the partner's taxation year, whether or not any of that income is distributed to the partner in the taxation year. For this purpose, the income or loss of the Partnership will be computed for each fiscal year as if the Partnership were a separate person resident in Canada. In computing the income or loss of the Partnership, deductions may generally be claimed in respect of its administrative and other expenses incurred to earn income from its business or property to the extent they are not capital in nature and do not exceed reasonable amounts, including expenses incurred by the Partnership in connection with the issue of LP Units, if any. The portion of those issue expenses deductible by the Partnership in a taxation year is 20% of the issue expenses borne by the Partnership, if any, pro-rated where a fiscal year of the Partnership is less than 365 days. The income or loss of the Partnership for a fiscal year will be allocated to the partners of the Partnership upon the basis of their respective shares of that income or loss as provided in the Partnership Agreement, subject to the detailed rules in the Tax Act in that regard.

Taxation of Unitholders Resident in Canada

Fund Distributions

A Unitholder will generally be required to include in its income for a particular taxation year the portion of the net income of the Fund for a taxation year, including net realized taxable capital gains, that is paid or payable, or deemed to be paid or payable, to the Unitholder in the particular taxation year, whether that amount is received in cash, additional Fund Units or otherwise.

Provided that appropriate designations are made by the Fund, that portion of its taxable dividends received from taxable Canadian corporations and net realized taxable capital gains as is paid or payable to a Unitholder will effectively retain this character and be treated as such in the hands of the Unitholder for purposes of the Tax Act. To the extent that amounts are designated as taxable dividends from taxable Canadian corporations, the normal gross-up and dividend tax credit provisions will be applicable in respect of Unitholders who are individuals, the refundable tax under Part IV of the Tax Act will be payable by Unitholders that are private corporations and certain other corporations controlled directly or indirectly by or for the benefit of an individual (other than a trust) or related group of individuals, and the deduction in computing taxable income will be available to Unitholders that are corporations.

A Unitholder that is a "Canadian-controlled private corporation" (as defined in the Tax Act) may be liable for a 6²/₃% refundable tax on its "aggregate investment income" for the year, including all income distributions (other than amounts designated as taxable dividends) and net taxable capital gains.

The non-taxable portion of any net realized capital gains of the Fund that is paid or payable, or deemed to be paid or payable, to a Unitholder in a taxation year will not be included in computing the Unitholder's income for the year. Any other amount in excess of the net income of the Fund that is paid or payable, or deemed to be paid or payable, to a Unitholder in that year will not generally be included in the Unitholder's income for the year. However, where such an amount is paid or payable, or deemed to be paid or payable, to a Unitholder (other than as proceeds in respect of the redemption of Fund Units), the Unitholder will be required to reduce the adjusted cost base of its Fund Units by that amount. To the extent that the adjusted cost base of a Fund Unit would otherwise be a negative amount, the negative amount will be deemed to be a capital gain and the adjusted cost base of the Fund Unit to the Unitholder will, immediately thereafter, be nil.

The cost to a Unitholder of additional Fund Units received in lieu of a cash distribution of income will be the amount of income distributed by the issue of those Fund Units. For the purpose of determining the adjusted cost base to a Unitholder of Fund Units, when a Fund Unit is acquired, the cost of the newly-acquired Fund Units will be averaged with the adjusted cost base of all of the Fund Units owned by the Unitholder as capital property immediately before that acquisition.

Dispositions of Fund Units

On the disposition or deemed disposition of a Fund Unit, whether on a redemption or otherwise, the Unitholder will realize a capital gain (or capital loss) equal to the amount by which the Unitholder's proceeds of disposition exceed (or are less than) the aggregate of the adjusted cost base of the Fund Unit to the Unitholder and any reasonable costs of disposition. Proceeds of disposition will not include an amount payable by the Fund that is otherwise required to be included in the Unitholder's income, such as any income or capital gain realized by the Fund in connection with a redemption of Fund Units which has been designated by the Fund to the redeeming Unitholder.

Where Fund Units are redeemed by the distribution of Trust Notes to the redeeming Unitholder, the proceeds of disposition to the Unitholder of the Fund Units will be equal to the fair market value of the Trust Notes so distributed less any capital gain or income realized by the Fund as a result of the redemption of Trust Notes or Trust Units in connection with the distribution of Trust Notes on the redemption of those Fund Units which has been designated by the Fund to the Unitholder. Where a capital gain or income realized by the Fund as a result of the redemption of Trust Notes or Trust Units in connection with a distribution of Trust Notes on the redemption of Fund Units has been designated by the Fund to a redeeming Unitholder, the Unitholder will be required to include in income the taxable portion of the capital gain and the income so designated. The cost of any Trust Note distributed by the Fund to a Unitholder upon the redemption of Fund Units will be equal to the fair market value of that Trust Note at the time of the distribution less any accrued interest on the Trust Note. The Unitholder will thereafter be required to include in income interest on any Trust Note so distributed in accordance with the provisions of the Tax Act.

The consolidation of Fund Units will not be considered to result in a disposition of Fund Units by Unitholders. The aggregate adjusted cost base to a Unitholder of all of the Unitholder's Fund Units will not change as a result of a consolidation of Fund Units; however, the adjusted cost base per Fund Unit will increase.

Capital Gains and Capital Losses

One half of any capital gain realized by a Unitholder on a disposition or deemed disposition of Fund Units and the amount of any net taxable capital gains designated by the Fund in respect of a Unitholder will be included in the Unitholder's income as a taxable capital gain and one half of any capital loss realized by a Unitholder may generally be deducted only from taxable capital gains in accordance with the provisions of the Tax Act.

Where a Unitholder that is a corporation or trust (other than a "mutual fund trust") disposes of a Fund Unit, the Unitholder's capital loss from the disposition will generally be reduced by the amount of dividends received by the Fund, previously designated by the Fund to the Unitholder except to the extent that a loss on a previous disposition of a Fund Unit has been reduced by those dividends. Analogous rules apply where a corporation or trust (other than a "mutual fund trust") is a member of a partnership that disposes of Fund Units.

Alternative Minimum Tax

In general terms, net income of the Fund paid or payable or deemed to be paid or payable to a Unitholder who is an individual that is designated as taxable dividends or as net realized taxable capital gains and capital gains realized upon the disposition of Fund Units may increase the Unitholder's liability for alternative minimum tax.

Taxation of Unitholders Not Resident in Canada

The following summary is generally applicable to a Unitholder who, at all relevant times, for the purposes of the Tax Act and any applicable income tax treaty, is neither resident nor deemed to be resident in Canada, deals at arm's length with and is not affiliated with the Fund, and does not use or hold, and is not deemed to use or hold, the Fund Units in connection with a business carried on, or deemed to be carried on, in Canada (a "Non-Resident Unitholder"). Special rules not discussed in this summary may apply to a Unitholder who is a non-resident insurer that carries on an insurance business in Canada and elsewhere.

Distributions of income (other than net realized capital gains) on Fund Units paid or credited to a Non-Resident Unitholder will be subject to Canadian withholding tax at a rate of 25%, unless such rate is reduced under the provisions of an income tax treaty between Canada and the Non-Resident Unitholder's country of residence. Non-Resident Unitholders who are residents of the United States for purposes of the Canada-United States Tax Convention generally will be entitled to have the rate of withholding reduced to 15% of the amount of any income distribution.

The Fund and the Trust will be required to maintain special "TCP gains distribution accounts" to which they will add their respective gains from dispositions of "taxable Canadian property" (as defined in the Tax Act) and from which they will deduct their respective losses from such dispositions and the amount of all "TCP gains distributions" made by them. Where the Fund pays an amount to a Non-Resident Unitholder and makes a designation to treat that amount as a capital gain, such portion of that amount as does not exceed the Non-Resident Unitholder's portion (determined by reference to the outstanding Fund Units) of the Fund's TCP gains distribution account will be subject to the same Canadian withholding tax as described above for distributions of income (other than net realized capital gains).

It is not clear whether other amounts distributed by the Fund to a Non-Resident Unitholder (i.e. amounts other than income, and taxable capital gains from dispositions of taxable Canadian property) will be subject to Canadian withholding tax. Under the Tax Act, such amounts paid or credited by a mutual fund trust to a Non-Resident Unitholder are subject to a special 15% withholding tax if the trust units are listed on a prescribed stock exchange (which includes the TSX) and more than 50% of the fair market value of the trust units is attributable to, among other things, real property situated in Canada. The Fund has advised Counsel that it intends to withhold such tax from such amounts paid or credited to Non-Resident Unitholders. A Non-Resident Unitholder 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 Unitholder 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.

A Non-Resident Unitholder will not be subject to tax under the Tax Act in respect of any capital gain realized on a disposition of Fund Units (whether on redemption or otherwise) unless the Fund Units constitute “taxable Canadian property” of the Non-Resident Unitholder and the Non-Resident Unitholder is not entitled to relief under an applicable income tax treaty. Fund Units of a Non-Resident Unitholder generally will not be considered to be taxable Canadian property unless (i) at any time during the 60 month period immediately preceding the disposition of such Fund Units by the Non-Resident Unitholder, not less than 25% of the issued Fund Units were owned by the Non-Resident Unitholder, by persons with whom the Non-Resident Unitholder did not deal at arm’s length or by any combination thereof; (ii) at the time of disposition, the Fund is not a “mutual fund trust” for purposes of the Tax Act or (iii) the Fund Units are otherwise deemed to be taxable Canadian property of the Non-Resident Unitholder.

A distribution of Fund assets to a Non-Resident Unitholder upon a redemption of Fund Units will be treated as a disposition of such assets by the Fund for proceeds equal to their fair market value. This disposition will result in a capital or income gain (or loss) to the Fund to the extent that such proceeds exceed (or are exceeded by) the cost amount to the Fund of such assets. If the assets are Trust Notes, in addition, the Fund would be required to include in its income any accrued interest on the Trust Notes distributed. Capital gains of the Fund, including those attributable to an in specie distribution of Fund assets, and certain income of the Fund may, pursuant to the Declaration of Trust, be payable and allocated to the redeeming Unitholder for tax purposes. In the case of a redeeming Non-Resident Unitholder, such amounts, when distributed to the Unitholder, may be subject to Canadian withholding tax. Specifically, the portion of any such distribution that is in respect of income, or a taxable capital gain from the disposition of “taxable Canadian property” (which will include the Trust Units but not the Trust Notes), will be subject to Canadian withholding tax at a rate of 25%, subject to a reduction in such rate under the terms of an applicable tax treaty, and the otherwise non-taxable portion of any capital gain may be subject to the special 15% withholding tax described above. Any such amounts that are subject to Canadian withholding tax generally will be excluded from the Non-Resident Unitholder’s proceeds of disposition for the purpose of computing a capital gain or capital loss on the redemption. Interest paid on Trust Notes that are distributed to a Non-Resident Unitholder on an in specie redemption of Fund Units will be subject to Canadian withholding tax at a rate of 25%, subject to a reduction in such rate under the terms of an applicable tax treaty. Non-Resident Unitholders are urged to consult their own Canadian tax advisors before requesting a redemption of their Fund Units.

Certain United States Federal Income Tax Considerations

The following summary describes certain United States federal income tax consequences of the Arrangement that are generally applicable to a United States person that holds Canfor Shares as capital assets (a “**U.S. Holder**”) within the meaning of Section 1221 of the Internal Revenue Code of 1986, as amended (the “**Code**”). The following discussion does not purport to be a complete analysis of all of the potential United States federal income tax considerations that may be relevant to particular holders in light of their particular circumstances nor does it deal with persons that are subject to special tax rules, such as brokers, dealers in securities or currencies, financial institutions, insurance companies, tax-exempt organizations, persons liable for alternative minimum tax, persons holding Canfor Shares as part of a straddle, hedge or conversion transaction or as part of a synthetic security or other integrated transaction, traders in securities that elect to use a mark-to-market method of accounting for their securities holdings, persons who actually or constructively own at any time 10% or more of the voting shares of Canfor, holders whose “functional currency” is not the United States dollar, and holders who are not U.S. Holders. In addition, the discussion below does not address the tax consequences of the law of any state, locality or foreign jurisdiction or United States federal tax consequences (e.g., estate or gift tax) other than those pertaining to the income tax. There can be no

assurance that the United States Internal Revenue Service (the “IRS”) will take a similar view as to any of the tax consequences described in this summary.

The following is based on currently existing provisions of the Code, existing and proposed Treasury regulations under the Code and current administrative rulings and court decisions. Everything listed in the previous sentence may change, possibly on a retroactive basis, and any change could affect the continuing validity of this discussion.

Each holder of Canfor Shares should consult its tax advisor regarding the United States federal income tax consequences of the Arrangement and the holding of New Common Shares and Fund Units applicable to such holder in light of its particular situation, as well as any tax consequences that may arise under the laws of any other relevant foreign, state, local, or other taxing jurisdiction.

TO ENSURE COMPLIANCE WITH TREASURY DEPARTMENT CIRCULAR 230, YOU ARE HEREBY NOTIFIED THAT: (A) ANY DISCUSSION OF FEDERAL TAX ISSUES IN THIS INFORMATION CIRCULAR IS NOT INTENDED OR WRITTEN TO BE RELIED UPON, AND CANNOT BE RELIED UPON BY YOU, FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON YOU UNDER THE INTERNAL REVENUE CODE; (B) SUCH DISCUSSION IS WRITTEN IN CONNECTION WITH THE PROMOTION OR MARKETING OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN; AND (C) YOU SHOULD SEEK ADVICE BASED ON YOUR PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

As used in this section, the term “U.S. Holder” means a beneficial owner of Canfor Shares that is:

- (a) a citizen or an individual resident of the United States;
- (b) a corporation (or an entity taxable as a corporation for United States federal income tax purposes) created or organized in or under the laws of the United States or any political subdivision of the United States;
- (c) an estate the income of which is subject to United States federal income taxation regardless of its source; or
- (d) a trust which (A) is subject to the supervision of a court within the United States and the control of a United States person as described in Section 7701(a)(30) of the Code; or (B) was in existence on August 20, 1996 and has properly elected under applicable Treasury Regulations to continue to be treated as a United States person.

If a partnership (or an entity taxable as a partnership for United States federal income tax purposes) holds Canfor Shares, the United States federal income tax treatment of a partner generally will depend on the status of the partner and the activities of the partnership. A U.S. Holder that is a partner of a partnership holding Canfor Shares should consult its own tax advisor.

Exchange of Canfor Shares for New Common Shares and Fund Units or for New Common Shares and Cash

Subject to the discussion of “Passive Foreign Investment Company Considerations” below, the exchange of a Canfor Share for a New Common Share and portion of a Fund Unit is expected to have the following consequences for United States federal income tax purposes.

Exchange of a Canfor Share for a New Common Share

First, a U.S. Holder’s exchange of a Canfor Share for a New Common Share should qualify as a nontaxable exchange. As a result, a U.S. Holder should recognize no gain or loss on such exchange. A U.S. Holder’s tax basis and holding period for each Canfor Share held will carry over to its tax basis and holding period for the New Common Share received in exchange for such Canfor Share.

Receipt of a Portion of a Fund Unit

Second, a U.S. Holder should be treated as having received a distribution in an amount equal to the fair market value of the Fund Units to which such U.S. Holder became entitled on the date of distribution (regardless of whether U.S. Holder actually received Fund Units or instead received cash in lieu of Fund Units). Such distribution will constitute a dividend for United States federal income tax purposes to the extent paid from Canfor’s current or accumulated earnings and profits, as determined under United States federal income tax principles. Distributions in excess of earnings and profits will constitute a return of capital that is applied against and reduces the U.S. Holder’s adjusted tax basis in its New Common Shares. Any remaining excess will be treated as gain realized on the sale or other disposition of the common stock and will be treated as described under “Gain on Disposition of New Shares or

Fund Units” below. Because Canfor does not expect to make a determination of earnings and profits in accordance with United States federal income tax principles, U.S. Holders should expect that the entire amount of the Fund Units received will be treated as a dividend.

To the extent that such distribution constitutes a dividend for United States federal income tax purposes, it will be included in the gross income of such U.S. Holder as ordinary income. It will not be eligible for the dividends-received deduction, but it may be eligible for the reduced tax rate (generally 15%) applicable to “qualified dividend income” of non-corporate U.S. Holders, including individuals, for taxable years beginning on or before December 31, 2008. U.S. Holders should consult their tax advisors concerning their eligibility for such reduced tax rate.

The tax basis of the Fund Units received by U.S. Holders in the Arrangement should equal the fair market value of such Fund Units on the date of their distribution (regardless of whether U.S. Holder actually received Fund Units or instead received cash in lieu of Fund Units).

Although there is no authority on point, Canfor believes that U.S. Holders that are not Qualified U.S. Canfor Shareholders will be treated as having received a distribution of Fund Units and then having sold such Fund Units for cash. As a result, in addition to the tax consequences described above, a U.S. Holder that is not a Qualified U.S. Canfor Shareholder would recognize a gain or loss in an amount equal to the difference between (i) the cash received by such U.S. Holder and (ii) such U.S. Holder’s basis in the Fund Units sold. Such gain or loss would be treated as short term capital gain or loss. The deductibility of capital losses is subject to limitations. It is possible that the IRS will treat U.S. Holders who are not Qualified U.S. Canfor Shareholders as having received the cash distribution directly from Canfor, in which case the additional tax consequences described in this paragraph will not apply.

Classification of the Fund

The Fund will elect to be treated as an association taxable as a corporation for United States federal income tax purposes. As a result, Fund Units will be treated as stock of a corporation for United States federal income tax purposes.

Dividends on New Common Shares and Distributions on Fund Units

Subject to the discussion of “Passive Foreign Investment Company Considerations” below, any such distributions by Canfor or the Fund will constitute dividends for United States federal income tax purposes to the extent paid from Canfor’s or the Fund’s current or accumulated earnings and profits, as determined under United States federal income tax principles. Distributions in excess of earnings and profits will constitute a return of capital that is applied against and reduces the U.S. Holder’s adjusted tax basis in its New Common Shares or Fund Units. Any remaining excess will be treated as gain realized on the sale or other disposition of the New Common Shares or Fund Units and will be treated as described under “United States Holders — Gain on Disposition of New Common Shares or Fund Units” below. Neither Canfor nor the Fund expects to make a determination of earnings and profits in accordance with United States federal income tax principles. Therefore, U.S. Holders should expect that the entire amount of the Fund Units received will be treated as a dividend.

To the extent that such distribution constitutes a dividend for United States federal income tax purposes, it will be included in the gross income of such U.S. Holder as ordinary income. It will not be eligible for the dividends-received deduction but may be eligible for the reduced tax rate (generally 15%) applicable to “qualified dividend income” of non-corporate U.S. Holders, including individuals, for taxable years beginning on or before December 31, 2008. U.S. Holders should consult their tax advisors concerning their eligibility for such reduced tax rate.

Dividends on New Common Shares or Fund Units paid in Canadian dollars will be included in a U.S. Holder’s income for United States federal income tax purposes in an amount equal to the United States dollar value of the dividends (determined at the spot rate on the date of such payment) regardless of whether the dividends are converted into United States dollars. U.S. Holders generally should not recognize any foreign currency gain or loss if the Canadian dollars are converted into United States dollars on the day they are received. However, if Canadian dollars are not converted into United States dollars on the day they are received, any gain or loss resulting from currency exchange fluctuations from the date the dividends are includible in income to the date the payment is converted into United States dollars will be ordinary income or loss.

Dividends on New Common Shares or Trust Units generally will be foreign source income for foreign tax credit limitation purposes. Currency gain or loss with respect to such dividends generally will be considered United States source income or loss for foreign tax credit limitation purposes.

Gain on Disposition of New Common Shares or Fund Units

Subject to the discussion of “Passive Foreign Investment Company Considerations” below, upon the sale or disposition of New Common Shares or Fund Units, a U.S. Holder generally will recognize a gain or loss in an amount equal to the difference between (i) the sum of any cash and the fair market value of any other property received and (ii) such U.S. Holder’s adjusted tax basis in such New Common Shares or Fund Units. Such gain or loss generally will be treated as capital gain or loss, and as long-term capital gain or loss if the New Common Shares or Fund Units had been held more than one year at the time of disposition. The deductibility of capital losses is subject to limitations.

Generally, in the case of a U.S. Holder who receives Canadian dollars in connection with the sale or disposition of New Common Shares or Fund Units, the amount realized will be based on the U.S. dollar value of the Canadian dollars received with respect to the New Common Shares or Fund Units. A United States Holder who receives payment in Canadian dollars and converts Canadian dollars into United States dollars at a conversion rate other than the rate in effect on the date of the sale or disposition may have a foreign currency exchange gain or loss that would be treated as ordinary income or loss.

For foreign tax credit limitation purposes, a gain or loss recognized on a sale or disposition of New Common Shares or Fund Units will be United States source income or loss. Any gain or loss from currency exchange fluctuations between the date of the disposition of the New Common Shares or Fund Units and the conversion of the sales proceeds into United States dollars will be United States source income or loss.

Passive Foreign Investment Company Considerations

If Canfor or the Fund is classified as a passive foreign investment company (PFIC) in any year, special, possibly materially adverse, consequences will result for U.S. Holders.

A corporation organized outside the U.S. generally will be classified as passive foreign investment company (a “PFIC”) for US federal income tax purposes in any taxable year in which either: (a) at least 75 percent of its gross income is “passive income” or (b) at least 50 percent of the average gross value of its assets is attributable to assets that produce “passive income” or are held for the production of passive income for the taxable year. Passive income for this purpose generally includes dividends, interest, royalties, rents and gains from commodities and securities transactions. In determining whether it is a PFIC, a foreign corporation is required to take into account a pro rata portion of the income and assets of each corporation in which it owns, directly or indirectly, at least a 25 percent interest.

Canfor believes that neither it nor the Fund has been a PFIC since the inception of the PFIC rules (1986). Further, Canfor does not expect that it or the Fund will become a PFIC for 2006 or future years. However, PFIC status is fundamentally factual in nature, generally cannot be determined until the close of the taxable year in question, and is determined annually (the average value of assets for each year being the average of the fair market values of the assets determined as of the end of each quarter). Consequently, Canfor can provide no assurance that it and the Fund will not be PFICs for either the current taxable year or for any subsequent taxable year. While Canfor believes that it and the Fund are currently not PFICs, it is possible that Canfor or the Fund may be classified as a PFIC in the current or any future year if they fail to generate sufficient gross income from their businesses, if their asset or income composition changes, if their projections are not accurate or if they fail to fall within the exception to passive income for active commodities businesses.

If the Canfor or the Fund is classified as a PFIC in any year that includes a U.S. Holder’s holding period, then Canfor or the Fund, as applicable, generally will continue to be treated as a PFIC for such U.S. Holder in all succeeding years, regardless of whether Canfor or the Fund, as applicable, continues to meet the income or asset test described above.

U.S. Holders are urged to consult their own tax advisers regarding the possible applicability of the PFIC rules and the consequences of PFIC status.

Foreign Tax Credits

Any tax withheld by Canadian taxing authorities with respect to distributions on New Common Shares or Fund Units may be, subject to a number of complex limitations, claimed as a foreign tax credit against a U.S. Holder’s United States federal income tax liability or may be claimed as a deduction for United States federal income tax purposes. The limitation on foreign taxes eligible for credit is calculated separately with respect to specific classes of

income. For this purpose, dividends that Canfor or the Fund distributes with respect to New Common Shares or Fund Units generally will be “passive income.” Because of the complexity of these limitations, each U.S. Holder should consult its own tax advisor with respect to the amount of foreign taxes that may be claimed as a credit.

Information Reporting and Backup Withholding

In general, information reporting requirements will apply to certain payments of dividends on New Common Shares and Fund Units and to certain payments of proceeds from the sale or exchange of New Common Shares and Fund Units made to U.S. Holders other than certain exempt recipients (such as corporations). A U.S. Holder that is not an exempt recipient will generally be subject to backup withholding with respect to such payments (currently at a rate of 28%, which rate will be replaced by a 31% rate beginning in 2011) unless the U.S. Holder provides an accurate taxpayer identification number and otherwise complies with applicable requirements of the backup withholding rules.

Any amounts withheld under the backup withholding rules will be allowed as a credit against the U.S. Holder’s United States federal income tax liability or refundable to the extent that it exceeds such liability. A U.S. Holder who does not provide a correct taxpayer identification number may be subject to penalties imposed by the IRS.

Dissent Rights

There is no mandatory statutory right of dissent and appraisal in respect of plans of arrangement under the BCBCA. However, as contemplated in the Plan of Arrangement, Canfor has granted to Registered Canfor Shareholders 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 Canfor Shareholder who intends to exercise the Dissent Rights must deliver a Dissent Notice to Canfor at 100-1700 West 75th Avenue, Vancouver, British Columbia V6P 6G2, Attention: Corporate Secretary, to be received not later than 4:30 p.m. (Vancouver time) on June 7, 2006 and must not vote any Dissent Shares it holds in favour of the Arrangement. A Beneficial Canfor Shareholder who wishes to exercise the Dissent Rights, must arrange for the Registered Canfor Shareholder(s) holding its Canfor Shares to deliver the Dissent Notice. The Dissent Notice must contain all of the information specified in the Interim Order.

If the Arrangement Resolution is passed at the Meeting, Canfor must send by registered mail to every Dissenting Shareholder, prior to the date set for the hearing of the Final Order, 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, Canfor intends to complete the Arrangement, and advising the Dissenting Shareholder that if the Dissenting Shareholder intends to proceed with its exercise of its Dissent Rights, it must deliver to Canfor, 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) representing the Dissent Shares.

A Dissenting Shareholder delivering such a written statement may not withdraw from its dissent and, at the Effective Time, will be deemed to have transferred to Canfor all of its Dissent Shares. Canfor will pay to each Dissenting Shareholder for the Dissent Shares the amount agreed on by Canfor and the Dissenting Shareholder. Either Canfor or a Dissenting Shareholder may apply to Court if no agreement on the amount to be paid for the Dissent Shares has been reached, and the Court may:

- (a) determine the fair value that the Dissent Shares 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 Shareholder who has not reached an agreement with Canfor as to the amount to be paid for the Dissent Shares; or
- (c) make consequential orders and give directions it considers appropriate.

If a Dissenting Shareholder fails to strictly comply with the requirements of the Dissent Rights set out in the Interim Order, it will lose its Dissent Rights, Canfor will return to the Dissenting Shareholder the certificate(s) representing the Dissent Shares that were delivered to Canfor, if any, and, if the Arrangement is completed, that Dissenting Shareholder shall be deemed to have participated in the Arrangement on the same terms as all other Canfor Shareholders who are not Dissenting Shareholders.

Registered Canfor Shareholders 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 Canfor Shareholders should note that the exercise of Dissent Rights can be a complex, time-consuming and expensive procedure.

Interests of Certain Persons in the Spinout

The management of Canfor understands that all of the directors and officers of Canfor presently intend to vote the Canfor Shares owned, or over which control and direction is exercised, by them in favour of the Arrangement Resolution. As of April 27, 2006, the directors and officers of Canfor owned, or exercised control and direction over, approximately 20.83% of the issued and outstanding Canfor Shares.

Canfor retained RBC Dominion Securities Inc., a member company of RBC Capital Markets, as financial advisor to Canfor and its Board of Directors to explore various alternatives for value creation in the Pulp Business. RBC Dominion Securities Inc. has received and will receive fees from Canfor for such services, a portion of which are payable upon completion of the Spinout.

Expenses of the Spinout

The estimated costs relating to the Spinout, including expenses incurred in connection with the Arrangement, will be borne by the Partnership and are expected to be approximately \$5 million.

Stock Exchange Listings

It is a condition to the completion of the Arrangement that the TSX shall have conditionally approved the listing of the New Common Shares, in substitution for the listing of the Canfor Shares, and the listing of the Fund Units, subject only to the filing of required documents which cannot be filed prior to the Effective Date. The requirements of the TSX for such listings are expected to be met on the Effective Date or soon thereafter. Listing will be subject to Canfor and the Fund, as the case may be, fulfilling all of the listing requirements of the TSX.

Price Range and Trading Volume of Canfor Shares

The following table sets forth the reported high and low sale prices (which are not necessarily the closing prices) and the trading volumes for the Canfor Shares on the TSX for the periods indicated.

	Price Range (\$)		Trading Volume
	High	Low	
2005			
January	\$16.20	\$14.50	7,224,160
February	\$18.35	\$15.55	11,167,884
March	\$18.50	\$15.88	7,458,104
April	\$17.45	\$15.00	7,444,160
May	\$15.95	\$14.51	10,333,656
June	\$16.12	\$14.70	7,873,112
July	\$15.23	\$14.13	6,026,213
August	\$14.90	\$12.50	14,033,253
September	\$14.70	\$13.30	9,126,710
October	\$15.14	\$11.26	11,200,237
November	\$13.10	\$11.69	11,498,944
December	\$13.94	\$12.01	13,886,963
2006			
January	\$14.82	\$13.36	16,406,539
February	\$14.00	\$12.96	13,356,150
March	\$ 14.65	\$ 13.31	12,992,539
April (1 to 27)	\$ 14.74	\$ 13.90	12,020,659

Canadian Regulatory Matters

The New Common Shares and the Fund Units to be issued and transferred under the Spinout 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 Commissions, including the Autorité des marchés financiers, and the New Common Shares and the Fund Units 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 securities laws of the provinces and territories of Canada.

Ontario Securities Commission Rule 61-501 and the equivalent Policy Q-27 in Québec (the “Related Party Rules”) govern, among other things, business combinations and related party transactions. However, these Related Party Rules do not apply to the Spinout since the general body of holders in Canada of Canfor Shares are treated identically on a per security basis and no related party of Canfor is entitled, directly or indirectly, to receive a collateral benefit as a consequence of the Spinout.

U.S. Regulatory Matters

Neither the New Common Shares to be issued to Canfor Shareholders nor the Fund Units to be transferred to Canfor Shareholders other than Non-Qualified U.S. Canfor Shareholders pursuant to the Arrangement will be registered under the 1933 Act, in reliance on the exemption from registration provided by Section 3(a)(10) thereunder. Any resale of such New Common Shares or Fund Units by an affiliate (or former affiliate) of Canfor or the Fund may be subject to certain restrictions imposed by the 1933 Act. Any such affiliate (or former affiliate) should obtain the advice of its legal counsel with respect to the application of the 1933 Act to the offer or sale of such New Common Shares or such Fund Units by such person.

In addition, Fund Units transferred to Qualified U.S. Canfor Shareholders 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 the Fund or to a purchaser who is a Qualified Purchaser. Any Qualified U.S. Canfor Shareholder 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 Fund Units by such person.

Fund Units will only be distributed to U.S. Canfor Shareholders who are also Qualified U.S. Canfor Shareholders. See “Qualified U.S. Canfor Shareholders” below. All Non-Qualified U.S. Canfor Shareholders will receive a cash payment in lieu of receiving Fund Units, as set forth in “Non-Qualified U.S. Canfor Shareholders” below.

Qualified U.S. Canfor Shareholders

A U.S. Canfor Shareholder who otherwise satisfies the requirements for treatment as a Qualified U.S. Canfor Shareholder will only be treated as such for purposes of the Spinout if such U.S. Canfor Shareholder submits to Canfor and the Fund, on or prior to the Effective Date, (and does not withdraw) a properly completed and executed Qualified Purchaser Certification, the form of which is attached to the Letter of Transmittal, certifying such U.S. Canfor Shareholder’s status as a Qualified U.S. Canfor Shareholder. Each Qualified U.S. Canfor Shareholder shall receive Fund Units as part of the Spinout as described in this Information Circular.

Non-Qualified U.S. Canfor Shareholders

Under applicable U.S. securities laws, Canfor cannot distribute Fund Units to U.S. Canfor Shareholders who are not Qualified U.S. Canfor Shareholders. Consequently, Fund Units otherwise distributable to Non-Qualified U.S. Canfor Shareholders will be pooled and sold in the Canadian market on behalf of Non-Qualified U.S. Canfor Shareholders.

All Fund Units that Canfor is required to sell on behalf of Non-Qualified U.S. Canfor Shareholders will be pooled with the Sale Trustee and sold as soon as practicable after the Effective Date. Any such sale of Fund Units shall be effected by the Sale Trustee by private sale or on any stock exchange on which such Fund Units are then listed. As soon as reasonably possible thereafter, the Sale Trustee will forward to each such Non-Qualified U.S. Canfor Shareholder whose Fund Units have been sold a cheque (net of any applicable withholding taxes) in U.S. dollars in an amount equal to the net proceeds received by the Sale Trustee upon the sale of such Non-Qualified U.S. Canfor Shareholder’s Fund Units. In addition, for those U.S. Canfor Shareholders who submit a properly completed and

executed Qualified Purchaser Certification certifying they are Non-Qualified U.S. Canfor Shareholders, Canfor will pay the fees and costs associated with such pooling and sale.

In effecting the sale of any Fund Units, 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 Fund Units. Neither Canfor, the Sale Trustee nor the Fund will be liable for any loss arising out of any such sales. The sale price of the Fund Units sold on behalf of such U.S. Canfor Shareholders will fluctuate with the market price of the Fund Units and no assurances can be given that any particular price will be received upon such sale.

Qualified Purchaser Certification

Attached to the Letter of Transmittal is a form of Qualified Purchaser Certification which is to be completed, executed and submitted to Canfor and the Fund by each U.S. Canfor Shareholder. As discussed herein, in order for a U.S. Canfor Shareholder to be deemed a Qualified U.S. Canfor Shareholder for purposes of the transactions described herein, such Shareholder must indicate in a properly completed and executed Qualified Purchaser Certification that is submitted on or prior to the Effective Date that such Canfor Shareholder is a Qualified U.S. Canfor Shareholder, satisfies certain additional requirements under applicable securities laws and agrees to certain restrictions with regard to the Fund Units.

However, it is important for all U.S. Canfor Shareholders, including U.S. Canfor Shareholders who are not Qualified U.S. Canfor Shareholders or who cannot otherwise satisfy the requirements to receive Fund Units, to submit on or prior to the Effective Date a properly completed and executed Qualified Purchaser Certification. As discussed herein, U.S. Canfor Shareholders who do not submit a properly completed and executed Qualified Purchaser Certification on or prior to the Effective Date will not be entitled to receive Fund Units. Furthermore, Canfor will pay the fees and costs associated with pooling and selling Fund Units of Non-Qualified U.S. Canfor Shareholders who have submitted properly completed and executed Qualified Purchaser Certifications indicating that they are not eligible to receive Fund Units, but will not pay such fees and costs for Non-Qualified U.S. Canfor Shareholders who have not submitted properly completed and executed Qualified Purchaser Certifications.

Legal Matters

Legal matters in connection with the Arrangement will be passed upon on behalf of Canfor by Stikeman Elliott LLP. As at April 27, 2006 the partners and associates of Stikeman Elliott LLP owned beneficially, directly or indirectly, in the aggregate less than 1% of the outstanding Canfor Shares.

CANFOR AFTER THE SPINOUT

Following completion of the Spinout, Canfor will continue to be the largest producer of softwood lumber in Canada, with an annual production capability of approximately 5.1 billion board feet of lumber, 1.0 billion square feet of OSB (3/8 inch basis) and 440 million square feet of plywood, including the capacity acquired in its New South acquisition.

Canfor is, and following completion of the Spinout, will continue to be, a company incorporated under the BCBCA and a reporting issuer or equivalent thereof in all provinces and territories of Canada under applicable securities legislation.

Canfor's registered and head office is located at 100-1700 West 75th Avenue, Vancouver, British Columbia, V6P 6G2.

Reference is made to Appendix D, "Canfor After the Spinout" for a description of Canfor following completion of the Spinout.

INFORMATION CONCERNING THE FUND

The Fund is an unincorporated open-ended trust established under the laws of the Province of Ontario pursuant to the Fund Declaration. The principal and head office of the Fund is located at 100-1700 West 75th Avenue, Vancouver, British Columbia, V6P 6G2. The Fund has been created to indirectly acquire an interest in the Partnership through its holding of units and notes of the Trust.

Unitholders will be the sole beneficiaries of the Fund. The Fund will become a reporting issuer or equivalent thereof in all provinces and territories of Canada, and will become subject to the continuous disclosure and other reporting requirements under applicable securities legislation, as a result of the Spinout.

See Appendix E, "The Fund".

INFORMATION CONCERNING THE TRUST

The Trust is an unincorporated open-ended trust established under the laws of the Province of Ontario pursuant to the Trust Declaration. The principal and head office of the Trust is located at 100-1700 West 75th Avenue, Vancouver, British Columbia, V6P 6G2. Following the Spinout, all of the Trust Units and the Trust Notes will be owned by the Fund. The Trust has been created to directly acquire 20% of the outstanding LP Units.

See Appendix E, “The Fund”.

INFORMATION CONCERNING THE LIMITED PARTNERSHIP

The Partnership is a limited partnership formed under the laws of the Province of Manitoba. The LP Units will be held as to approximately 20% by the Trust (which will hold all of the outstanding Class A LP Units) and approximately 80% by Canfor (which will hold all of the outstanding Class B Exchangeable LP Units).

The General Partner is a corporation incorporated under the laws of Canada and will hold a 0.001% GP Interest in the Partnership. Canfor and the Trust will each hold that percentage of the outstanding common shares of the General Partner as is equal to their respective Partnership Interests. Following completion of the Spinout, the Partnership will own and operate the Pulp Business.

See Appendix E, “The Fund”.

RISK FACTORS

Prospective Unitholders should carefully consider the following risk factors. The following information is only a summary of certain risk factors and is qualified in its entirety by reference to, and must be read in conjunction with, the detailed information appearing elsewhere in this Information Circular. These risks and uncertainties are not the only ones facing the Partnership and the Fund. Additional risks and uncertainties not presently known to the Partnership or the Fund, or that the Partnership or the Fund currently deem immaterial, may also impair the operations of the Partnership or the Fund. If any such risks actually occur, the business, assets, financial conditions, results of operations, cash flows, liquidity and/or Distributable Cash of the Partnership could be materially adversely affected and the ability of the Fund to make distributions on the Fund Units could be materially adversely affected.

Risks Related to the Structure of the Fund and the Spinout

Completion and Benefits of the Spinout

The Spinout may not be completed, and if completed, the benefits of the Spinout to Canfor Shareholders expected by Canfor, as described in this Information Circular, may not be realized.

Control of the Partnership

Following completion of the Spinout, Canfor will own GP Shares and LP Units representing approximately 80% of the voting and equity interest in the Partnership.

Pursuant to the Shareholders’ Agreement, Canfor will be entitled to appoint four of the seven 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 Spinout — Transfer of the Pulp Business and Related Agreements — Other Material Agreements — Shareholders’ Agreement” for a description of Canfor’s board representation rights.

For so long as Canfor holds not less than a 20% indirect economic interests in the Fund, Canfor’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 Canfor. As a result of these rights, Canfor will exercise significant influence or control over transactions submitted to the board of the General Partner and to the Fund Trustees and Trust Trustees. Canfor may have sufficient voting power to prevent a change of control of the Partnership. The Fund will have an indirect minority interest in the Partnership and minority representation on the board of the General Partner and will therefore have limited influence over transactions of the Partnership.

The interests of Canfor may conflict with those of Unitholders.

Dependence on the Partnership

The Fund is an unincorporated open-ended, limited purpose trust that will be entirely dependent on the operations and assets of the Partnership. Cash distributions to Unitholders will be dependent on, among other things, the ability of the Trust to pay interest on the Trust Notes and to make cash distributions in respect of the Trust Units, which, in turn, is dependent on the Partnership making cash distributions. The ability of the Fund and its subsidiaries to make cash distributions or other payments or advances will be subject to applicable laws and regulations and contractual restrictions contained in the instruments governing any indebtedness of those entities, including restrictive covenants in the New Credit Facilities.

Cash Distributions Are Not Guaranteed and Will Fluctuate with the Business Performance

Although the Fund intends to distribute the interest received in respect of the Trust Notes and the cash distributions received in respect of the Trust Units, less expenses and amounts, if any, paid by the Fund in connection with the redemption of Fund Units, there can be no assurance regarding the amount of income to be generated by the Partnership's business or ultimately distributed to the Fund. The ability of the Fund to make cash distributions, and the actual amount distributed, will be entirely dependent on the operations and assets of the Partnership, and will be subject to various factors including its financial performance, its obligations under applicable credit facilities, fluctuations in its working capital, the sustainability of its margin and its capital expenditure requirements. The market value of the Fund Units may deteriorate if the Fund is unable to meet its distribution targets in the future, and that deterioration may be significant.

Nature of Fund Units

The Fund Units share certain attributes common to both equity securities and debt instruments. The Fund Units do not represent a direct investment in the business of the Partnership and should not be viewed by investors as direct securities of the Partnership. As holders of Fund Units, Unitholders will not have the statutory rights normally associated with ownership of shares of a corporation including, for example, the right to bring "oppression" or "derivative" actions or rights of dissent.

The Fund Units represent a fractional interest in the Fund. The Fund's primary assets will be Trust Units and Trust Notes. The price per Fund Unit is mainly a function of anticipated distributable income.

The Fund Units are not "deposits" within the meaning of the *Canada Deposit Insurance Corporations Act* (Canada) and are not insured under the provisions of that Act or any other legislation. Furthermore, the Fund is not a trust company and, accordingly, is not registered under, any trust and loan company legislation as it does not carry on or intend to carry on the business of a trust company.

Absence of Prior Public Market

Prior to the Spinout, there has been no public market for the Fund Units. The price at which the Fund Units will trade in the public market subsequent to the Spinout will be subject to fluctuation based upon the performance of the Partnership and market conditions.

Market Price of Fund Units

Publicly traded investment trusts such as the Fund do not necessarily trade at prices determined solely by reference to the underlying value of their investments. Increases in market rates of interest may lead purchasers to demand a higher yield on the Fund Units, which may adversely affect their price. In addition, the market price for the Fund Units may be affected by changes in general market conditions, fluctuations in the markets for equity securities and other factors beyond the Fund's control.

The market value of the Fund Units may deteriorate if the Fund is unable to meet its distribution targets in the future, and that deterioration may be material. In addition, the composition of cash distributions for tax purposes may change over time and may affect the after-tax return for investors. See "The Spinout — Certain Canadian Federal Income Tax Considerations".

Distribution of Securities on Redemption or Termination of the Fund

Upon termination of the Fund, the Trustees may distribute the Trust Notes and Trust Units directly to the Unitholders, subject to obtaining all required regulatory approvals. Upon redemption of Fund Units, the Trustees may distribute the Trust Notes directly to Unitholders, subject to obtaining all required regulatory approvals. There is

currently no market for the Trust Notes and the Trust Units. In addition, Trust Notes and the Trust Units are not freely tradable or listed on any stock exchange. See Appendix E “Description of the Fund and Fund Units — Fund Declaration” and Appendix E “Description of the Fund and Fund Units — Redemption Right”. Securities so distributed may not be qualified investments for trusts governed by Plans, depending on the circumstances at the time.

Dilution of Existing Unitholders

The Fund Declaration authorizes the Fund to issue an unlimited number of Fund Units for such consideration and on such terms and conditions as shall be established by the Trustees without the approval of any Unitholders. The Unitholders will have no pre-emptive rights in connection with such further issues. Additional Fund Units will be issued by the Fund in connection with the conversion of the Class B Exchangeable LP Units by Canfor into Fund Units pursuant to the conversion rights attached thereto See “The Spinout — Transfer of the Pulp Business and Related Agreements — Other Material Agreements — Exchange Agreement”.

Leverage and Restrictive Covenants in Agreements Relating to Indebtedness

The ability of the Fund and its subsidiaries to make distributions, pay dividends or make other payments or advances will be subject to applicable laws and contractual restrictions contained in the instruments governing any indebtedness of those entities (including the New Credit Facilities). The degree to which the Partnership is leveraged could have important consequences to the Unitholders including: the Partnership’s ability to obtain additional financing for working capital, 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 Distributable Cash to interest rate variations.

The New Credit Facilities will contain numerous 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 New Credit Facilities will contain a number of 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 New 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 New 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 term portion of the New Credit Facilities will mature no earlier than the third anniversary thereof (subject to customary extension features), and accordingly, the Partnership may be required to refinance such indebtedness or seek alternative financing arrangements. There can be no assurance that the New 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 the Fund to make distributions on Fund Units.

Structural Subordination of the Fund Units

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 the Fund. Upon completion of this Offering, the Fund Units will be junior in priority to the debt outstanding under the New Credit Facilities and other liabilities (including trade payables) of the Partnership. The Partnership will generate all of the Fund’s cash available for distribution and will hold all of the Fund’s consolidated assets.

Future Sales of Fund Units by Canfor

Immediately following the Effective Date, Canfor will hold all of the Class B Exchangeable LP Units representing approximately 80% of the outstanding Fund Units on a fully-diluted basis. Canfor has also been granted certain

registration rights by the Fund. See “The Spinout — Transfer of the Pulp Business and Related Agreements — Other Material Agreements — Exchange Agreement”. If Canfor sells substantial amounts of Fund Units in the public market, the market price of the Fund Units 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 Fund Units.

Income Tax Matters

There can be no assurance that Canadian federal income tax laws and administrative policies respecting the treatment of mutual fund trusts will not be changed in a manner which adversely affects the holders of Fund Units.

On September 8, 2005, the Department of Finance (Canada) released a consultation paper on tax and other issues related to publicly listed flow-through entities such as income trusts and limited partnerships and invited interested parties to make submissions prior to December 31, 2005. In addition, on September 19, 2005, the Minister of Finance (Canada) announced that he had requested that the CRA postpone providing advance income tax rulings respecting flow-through entity structures effective immediately, that the Department of Finance (Canada) was closely monitoring development in the flow-through entity market with a view to proposing measures in relation to the consultations and that consideration would be given to what, if any, transitional measures were appropriate. On November 23, 2005, the Minister of Finance (Canada) announced the end of this consultation process and no legislative amendments were proposed to change the taxation of income trusts. Instead, the Minister of Finance (Canada) tabled a Notice of Ways and Means Motion that would enhance the dividend gross-up and tax credit mechanism applicable to dividends paid by certain corporations after 2005. In addition, the CRA resumed providing advance income tax rulings in respect of flow-through entity structures. However, there can be no assurance that legislative amendments affecting the income tax treatment of income trusts will not be proposed in the future, or that the current administrative position of the CRA with respect to the tax treatment of income trusts, including the transactions pursuant to which they are organized and acquire their assets, will not change.

Currently, a trust will not be considered to be a mutual fund trust if it is established or maintained primarily for the benefit of non-residents unless all or substantially all of its property is property other than taxable Canadian property as defined in the Tax Act. On September 16, 2004, the Minister of Finance (Canada) released draft amendments to the Tax Act. Under those draft amendments, a trust would lose its status as a mutual fund trust if the aggregate fair market value of all units issued by the trust that are held by non-residents, or partnerships that are not Canadian partnerships, is more than 50% of the aggregate fair market value of all the units issued by the trust, and more than 10% (based on fair market value) of the trust’s property is taxable Canadian property or certain other types of property. If those draft amendments are enacted as proposed, and if, at any time, more than 50% of the aggregate fair market value of units of the Fund were held by non-residents or partnerships other than Canadian partnerships, the Fund would thereafter cease to be a mutual fund trust. Those draft amendments did not provide any means of rectifying a loss of mutual fund trust status. On December 6, 2004, the Department of Finance tabled a Notice of Ways and Means Motion which did not include these proposed changes. The Department of Finance indicated that the implementation of the proposed changes would be suspended pending further consultation with interested parties.

If the Fund ceases to qualify as a “mutual fund trust” under the Tax Act, the income tax considerations described herein under the heading “The Spinout — Certain Canadian Federal Income Tax Considerations” would be materially and adversely different in certain respects, including that Fund Units may cease to be qualified investments for Plans. The Tax Act imposes penalties for the acquisition or holding by Plans of non-qualified investments.

Although the Fund is of the view that all expenses to be claimed by the Fund, the Trust and the Partnership in the determination of their respective incomes under the Tax Act will be reasonable and deductible in accordance with the applicable provisions of the Tax Act and that the allocations of income and losses to be made for purposes of the Tax Act will be reasonable, there can be no assurance that the Tax Act or the interpretation of the Tax Act will not change, or that the CRA will agree with the expenses claimed. If the CRA successfully challenges the deductibility of expenses or the allocation of income and losses, the Partnership’s allocation of taxable income and losses to the Trust, and indirectly the Fund and the Unitholders, may increase or change.

Interest on the Trust Notes accrues to the Fund for Canadian federal income tax purposes, whether or not actually paid. In addition, any amounts of income of the Trust that become payable in the year to the Fund will be included in the income of the Fund, whether or not the amount is actually paid to the Fund in the year. The Fund Declaration of Trust provides that a sufficient amount of the Fund’s earnings and net realized capital gains will be distributed each year to Unitholders in order to eliminate the Fund’s liability for tax under Part 1 of the Tax Act. Where such amount of

net income (including interest on the Trust Notes and amounts payable by the Trust to the Fund) and net realized capital gains of the Fund in a taxation year exceeds the cash available for distribution in the year, such excess net income and net realized capital gains will be distributed to Unitholders in the form of additional Fund Units. Unitholders will generally be required to include an amount equal to the fair market value of those Fund Units in their taxable income, in circumstances when they do not directly receive a cash distribution.

In addition, the Acquisition Agreement under which Canfor will transfer the Mills and ancillary assets to the Partnership provides that Canfor and the Partnership will make elections under the Tax Act and corresponding provincial legislation, if applicable, to transfer such assets on a partially tax-deferred basis for income tax purposes. The cost to the Partnership of such assets for income tax purposes may therefore be less than their fair market value, such that the Partnership may realize greater taxable income on a future disposition of these assets than it would have, had it acquired the assets without such elections having been made. In addition, the Partnership's deductions for capital cost allowance and other tax deductions will be less than they would have been in the absence of a tax-deferred transfer.

Alternatively the CRA may seek to challenge the rollover, in whole or in part, in which case, if the CRA was successful, Canfor would be required to pay tax in respect of the transfer of the assets to the Partnership, the amount of which may be material. However, Counsel is of the view, and has advised Canfor, that any such challenge should not be successful.

Implications of Exercise of Redemption Right

It is anticipated that the redemption right will not be the primary mechanism for Unitholders to liquidate their investments. Upon a redemption of Fund Units or termination of the Fund, the Trustees may distribute the Trust Units and Trust Notes directly to the Unitholders, subject to obtaining any required regulatory approvals and complying with the requisite terms and conditions of such approvals. Trust Units and Trust Notes so distributed may not be qualified investments for Plans depending upon the circumstances at the time. Additionally, such Trust Units and Trust Notes will not be listed on any stock exchange and no established market is expected to develop in such Trust Units and Trust Notes and they may be subject to resale restrictions under applicable securities laws.

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.

Restrictions on Certain Unitholders and Liquidity of Fund Units

The Fund Declaration imposes various restrictions on Unitholders. Non-Resident Unitholders are prohibited from beneficially owning more than 49% of Fund Units (on a non-diluted and a fully-diluted basis). These restrictions may limit (or inhibit the exercise of) the rights of certain persons, including Non-Residents, to acquire Fund Units, to exercise their rights as Unitholders and to initiate and complete take-over bids in respect of the Fund Units. As a result, these restrictions may limit the demand for Fund Units from certain Unitholders and thereby adversely affect the liquidity and market value of the Fund Units held by the public.

Statutory Remedies

The Fund is not a legally recognized entity within the relevant definitions of the *Bankruptcy and Insolvency Act*, the *Companies' Creditors Arrangement Act* and, in some cases, the *Winding Up and Restructuring Act*. As a result, in the event a restructuring of the Fund were necessary, the Fund and its stakeholders may not be able to access the remedies and procedures available thereunder.

Unitholder Limited Liability

The Fund Declaration provides that no Unitholder will be subject to any liability in connection with the Fund or its obligations and affairs and, in the event that a court determines Unitholders are subject to any such liabilities, the liabilities will be enforceable only against, and will be satisfied only out of the Fund's assets. Pursuant to the Fund Declaration, the Fund will indemnify and hold harmless each Unitholder from any costs, damages, liabilities, expenses, charges and losses suffered by a Unitholder resulting from or arising out of such Unitholder not having such limited liability.

The Fund Declaration provides that all written instruments signed by or on behalf of the Fund must contain a provision to the effect that obligations under those instruments will not be binding upon Unitholders personally. Personal liability may however arise in respect of claims against the Fund that do not arise under contracts, including claims in tort, claims for taxes and possibly certain other statutory liabilities. The possibility of any personal liability of this nature arising is considered unlikely.

The *Trust Beneficiaries' Liability Act* (Ontario) came into force on December 16, 2004. The legislation provides that a Unitholder will not be, as a beneficiary, liable for any act, default, obligation or liability of the Trustee(s) that arises after the legislation came into force. However, this legislation has not yet been ruled on by the courts.

The operations of the Fund will be conducted upon the advice of counsel, in such a way and in such jurisdictions as to avoid as far as possible any material risk of liability to the Unitholders for claims against the Fund, including by obtaining appropriate insurance, where available and to the extent commercially feasible.

Nature of Distributions

Unlike interest payments on an interest-bearing security, distributions by income trusts on trust units (including those of the Fund) are, for Canadian tax purposes, composed of different types of payments (portions of which may be fully or partially taxable or may constitute non-taxable "returns of capital"). The composition for tax purposes of those cash distributions may change over time, thus affecting the after-tax return to Unitholders. Therefore, a Unitholder's rate of return over a defined period may not be comparable to the rate of return on a fixed-income security that provides a return on capital over the same period, because a Unitholder may receive distributions that constitute a return of capital (rather than a return on capital) to some extent during the relevant period. Returns on capital are generally taxed as ordinary income, dividends or taxable capital gains in the hands of a Unitholder while returns of capital are generally non-taxable to a Unitholder (but reduce a Unitholder's adjusted cost base in the Unit for tax purposes). Unitholders are advised to consult their own tax advisors with respect to the implications of the distinction discussed above in their own circumstances.

Issuance of Additional Fund Units

The Fund Declaration provides that an amount equal to the taxable income of the Fund will be payable each year to Unitholders in order to reduce the Fund's taxable income to zero. Where in a particular year, the Fund does not have sufficient Distributable Cash to distribute such an amount to Unitholders, the Fund Declaration provides that additional Fund Units must be distributed to Unitholders in lieu of cash payments. Unitholders will generally be required to include an amount equal to the fair market value of those Fund Units in their taxable income, notwithstanding that they do not directly receive a cash payment. See "The Spinout — Certain Canadian Federal Income Tax Considerations — Taxation of Unitholders".

Risks Related to the Pulp Business and 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 prices for NBSK Pulp have ranged from a low of U.S.\$460 per ADMT in 2002 to a high of U.S.\$883 per ADMT in 1995.

Currency Exchange Risk

The Partnership's operating results are sensitive to fluctuations in the exchange rate of the Canadian dollar to the U.S. dollar, as prices for the Partnership's products are denominated in U.S. dollars or linked to prices quoted in U.S. dollars. Therefore, an increase in the value of the Canadian dollar relative to the U.S. dollar reduces the amount of revenue in Canadian dollar terms realized by the Partnership from sales made in U.S. dollars, which, in turn, reduces the Partnership's operating margin and the cash flow available to fund distributions.

Dependence on Canfor

Approximately 75% of the fibre currently used by the Partnership is 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.

In addition, Canfor has agreed to provide certain services to the Partnership under the 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 materially adverse effect on the Partnership's business, assets, financial conditions, results of operations, cash flows, liquidity and/or distributable cash.

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 U.S. 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 the United States, Europe, Canada 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 2005, the Partnership's largest customer accounted for approximately 22.9% of its sales. The Partnership is therefore dependent on this key customer. While the Partnership's relationship with this customer is long-standing and the sales agreement with this customer is evergreen with a three-year notice period required to terminate the Agreement, in the event that the Partnership cannot maintain this customer or the demand from this customer diminishes 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 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 demands, 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 Cogeneration Agreement with BC Hydro, if the Cogeneration Project generates less than 390 GWh in any year and the shortfall cannot be made up by excess generation of up to 39 GWh in prior years or excess generation in the subsequent year, the Partnership is required to pay BC Hydro an amount equal to \$3.27 million multiplied by the ratio of the uncorrected shortfall to the annual requirement of 390 GWh.

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:

- 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; or
- other operational problems.

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 industries are 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's total capital expenditures were approximately \$45 million during 2005, and it expects to spend less than \$25 million on capital expenditures during 2006. 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 CEP and PPWC have terms expiring on April 30, 2008. 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 which 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 in response to customer demand. In addition, if any of these third parties were to cease operations or cease doing business with the Partnership, the Partnership may be unable to replace them at reasonable cost. 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; the difficulty of assimilating the operations and personnel of the acquired business; the challenge of implementing uniform standards, controls, procedures and policies throughout the acquired business; the inability to integrate, train, retain and motivate key personnel of the acquired business; the potential disruption of the Partnership's ongoing business and the distraction of management from its day-to-day operations; and the inability to successfully integrate acquired businesses into the Partnership. In addition, the Partnership may not be able to maintain the levels of operating efficiency that any of the acquired companies had achieved or might have achieved separately. These risks and difficulties, if they materialize, could disrupt the Partnership's ongoing business, distract management, result in the loss of key personnel, increase expenses and otherwise have a material adverse effect on the Partnership's business, assets, financial condition, results of operations, cash flows and/or distributable cash.

Senior Management

The Partnership's success depends, in part, on the efforts of its senior management. The senior management team, led by Paul Richards, the President and CEO, 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. If the Partnership loses or suffers an extended interruption in the services of one or more of its other senior officers, the Partnership may become unable to implement its business strategy, resulting in lower profitability. 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.

GENERAL PROXY MATTERS

Solicitation Of Proxies

This Information Circular is furnished in connection with the solicitation by the management of Canfor of proxies 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 primarily by mail. The cost of solicitation will be borne by Canfor.

Record Date

Canfor's Board of Directors has fixed the close of business on April 25, 2006 as the record date for determining the names of Registered Canfor Shareholders entitled to receive notice of the Meeting. Each person who is entered in the central securities register of Canfor at the close of business on April 25, 2006 as a holder of one or more Canfor Shares is entitled to attend and vote at the Meeting in person or by proxy and in the event of a poll to cast one vote for each Canfor Share held.

Appointment Of Proxyholders And Revocation Of Proxies

Each of the persons named in the enclosed form of proxy is a director and senior officer of Canfor. **A Registered Canfor Shareholder has the right to appoint a person (who need not be a Registered Canfor Shareholder) as its nominee to attend and act for it and on its behalf at the Meeting other than the persons designated in the form of proxy accompanying this Information Circular. To exercise this right a Registered Canfor Shareholder may insert the name in full of its nominee in the blank space provided in the form of proxy and strike out the names of the persons now designated.** 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, Attention: Proxy Department, or to the Corporate Secretary of Canfor at 100 — 1700 West 75th Avenue, Vancouver, British Columbia, V6P 6G2, in either case by 4:30 p.m. (Vancouver time) on the second business day prior to the date of the Meeting. A Registered Canfor Shareholder who has given a proxy has the power to revoke it by a signed instrument in writing in the manner provided in the articles of Canfor or in any other manner provided by law any time before it is exercised. The articles of Canfor provide that the revocation must be executed by the Registered Canfor Shareholder or his/her legal personal representative or trustee in bankruptcy or, where the Registered Canfor Shareholder is a corporation, by the corporation or a representative of the corporation appointed in accordance with Canfor's articles, and received at the registered office of Canfor at any time up to and including the last Business Day preceding the Meeting or received by the Chairman of the Meeting before any vote in respect of which the proxy has been given has been taken.

Voting Of Shares And Exercise Of Discretion By Proxyholder

The form of proxy accompanying this Information Circular confers discretionary authority upon the proxy nominee with respect to any amendments or variations to matters identified in the notice of the Meeting and any other matters which may properly come before the Meeting. At the date of this Information Circular, management of Canfor knows of no such amendments, variations or other matters to come before the Meeting other than the matters referred to in the notice of the Meeting and routine matters incidental to the conduct of the Meeting. In the event that any further or other business is properly brought before the Meeting, it is the intention of the persons designated in the enclosed form of proxy to vote in accordance with their judgment of such business. On any ballot or poll, the Canfor Shares represented by the proxy will be voted on the Arrangement Resolution in accordance with the instructions of the

Registered Canfor Shareholders as specified in the proxy. If a choice is not so specified, the Canfor Shares represented by a proxy given to management are intended to be voted in favour of the Arrangement Resolution.

Voting Shares And Principal Holders Thereof

As at April 25, 2006, Canfor had outstanding and entitled to be voted at the Meeting 142,540,030 Canfor Shares, each Canfor Share carrying the right to one vote. The following table sets forth the shareholdings of persons or companies which, to the knowledge of the Board of Directors and senior officers of Canfor, own beneficially directly or indirectly, or exercise control or direction over, Canfor Shares carrying more than 10% of the voting rights attached to all Canfor Shares entitled to be voted at the Meeting:

<u>Name</u>	<u>Number of Shares</u>	<u>Percentage</u>
James A. Pattison ⁽¹⁾	28,600,000	20.07%
Jarislowsky, Fraser Limited ⁽²⁾	26,450,817	18.56%
Third Avenue Management LLC ⁽³⁾	14,400,575	10.10%

- (1) The Canfor Shares beneficially owned by James A. Pattison, a director of Canfor, are held by companies wholly owned by Mr. Pattison.
- (2) Jarislowsky, Fraser Limited, an investment management firm with which Stephen A. Jarislowsky, a director of Canfor, is associated, exercises control or direction over 26,450,817 Canfor Shares.
- (3) Based upon publicly available information. Beneficial ownership is not known to Canfor.

Advice to Beneficial Canfor Shareholders

The information set forth in this section is of significant importance to many Canfor Shareholders, as a substantial number of Canfor Shareholders do not own Canfor Shares in their own name. Beneficial Canfor Shareholders should note that only proxies deposited by Registered Canfor Shareholders whose names appear in the central securities register of Canfor as registered holders of Canfor Shares at the close of business on the Record Date can be recognized and acted upon at the Meeting. If Canfor Shares are listed in an account statement provided to a Canfor Shareholder by a broker, then in almost all cases those Canfor Shares will not be registered in the Canfor Shareholder's name in the central securities register of Canfor. Such Canfor Shares will more likely be registered in the name of the shareholder's broker or an agent of that broker. In Canada, the vast majority of such shares are registered in the name of CDS & Co. (the registration name for The Canadian Depository for Securities, which acts as nominee for many Canadian brokerage firms). Canfor Shares held by brokers or their agents or nominees can only be voted (for or against resolutions) upon the instructions of the Beneficial Canfor Shareholder. Without specific instructions, brokers and their agents and nominees are prohibited from voting shares for the brokers' clients. Therefore, Beneficial Canfor Shareholders should ensure that instructions respecting the voting of their Canfor Shares are communicated to the appropriate person.

Applicable regulatory policy requires intermediaries/brokers to seek voting instructions from Beneficial Canfor Shareholders in advance of shareholders' meetings. Every intermediary/broker has its own mailing procedures and provides its own return instructions to clients, which should be carefully followed by Beneficial Canfor Shareholders in order to ensure that their Canfor Shares are voted at the Meeting. The voting instruction form supplied to a Beneficial Canfor Shareholder by its broker (or the agent of that broker) is similar to the form of proxy provided to Registered Canfor Shareholders by Canfor. However, its purpose is limited to instructing the Registered Canfor Shareholder (the broker or agent of the broker) how to vote on behalf of the Beneficial Canfor Shareholder. A Beneficial Canfor Shareholder receiving a voting instruction form cannot use it to vote Canfor Shares directly at the Meeting — that voting instruction form must be returned in accordance with its instructions well in advance of the Meeting in order to have the Canfor Shares voted.

Although a Beneficial Canfor Shareholder will not be recognized directly at the Meeting for the purposes of voting Canfor Shares registered in the name of a broker (or agent of the broker), a Beneficial Canfor Shareholder may attend at the Meeting as proxyholder for the Registered Canfor Shareholder and vote its Canfor Shares in that capacity. Beneficial Canfor Shareholders who wish to attend at the Meeting and indirectly vote their Canfor Shares as proxyholder for the Registered Canfor Shareholder should enter their own names in the blank space on the voting instruction form provided to them and return the same to their broker (or the broker's agent) in accordance with the instructions provided by such broker (or agent), well in advance of the Meeting.

ADDITIONAL INFORMATION

Additional information relating to Canfor is available on SEDAR at www.sedar.com. Copies of Canfor's financial statements and management's discussion and analysis of financial condition and results of operations may be obtained on request without charge from the Corporate Secretary of Canfor at 100-1700 West 75th Avenue, Vancouver, British Columbia, V6P 6G2. Financial information is provided in Canfor's annual comparative financial statements and management's discussion and analysis of financial condition and results of operations for Canfor's most recently completed financial year.

APPENDIX A — ARRANGEMENT RESOLUTION
SPECIAL RESOLUTION OF THE HOLDERS OF COMMON SHARES
OF CANFOR CORPORATION

BE IT RESOLVED AS A SPECIAL RESOLUTION THAT:

1. The arrangement (the “**Arrangement**”) involving Canfor Corporation (“**Canfor**”) and its shareholders, all as set forth in the plan of arrangement (the “**Plan of Arrangement**”) attached as Schedule 1 to the arrangement agreement attached as Appendix C to the Information Circular of Canfor dated April 28, 2006 (the “**Information Circular**”) is hereby authorized, approved and agreed to;
2. The arrangement agreement dated April 25, 2006 between Canfor, Canadian Forest Products Ltd., Canfor Pulp Income Fund, Canfor Pulp Trust, Canfor Pulp Holding Inc. and Canfor Pulp Limited Partnership attached as Appendix C to the Information Circular (the “**Arrangement Agreement**”), the actions of the directors of Canfor in approving the Arrangement and the actions of the directors and officers of Canfor in executing and delivering the Arrangement Agreement and causing the performance by Canfor of its obligations thereunder are hereby confirmed, ratified, authorized and approved;
3. Notwithstanding that this special resolution has been passed (and the Arrangement approved) by the shareholders of Canfor or that the Arrangement has been approved by the Supreme Court of British Columbia, the directors of Canfor are hereby authorized and empowered without further approval of the shareholders of Canfor to amend the Arrangement Agreement or the Plan of Arrangement to the extent permitted thereby, and not to proceed with the Arrangement, at any time prior to the time at which the Arrangement becomes effective; and
4. Any one director or one officer of Canfor is hereby authorized, empowered and instructed, acting for, in the name of and on behalf of Canfor, to execute or cause to be executed, under the seal of Canfor or otherwise, and to deliver or to cause to be delivered, all such documents and to do or to cause to be done all such acts and things as such director or officer of Canfor shall determine to be necessary or desirable in order to carry out the intent of the foregoing paragraphs of this special resolution and the matters authorized thereby, such determination to be conclusively evidenced by the execution and delivery of such documents or the doing of such act or thing.

APPENDIX B — COURT MATERIALS



No. **5062712**
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 CORPORATION

CANFOR CORPORATION

PETITIONER

INTERIM ORDER

)	THE HONOURABLE MR. JUSTICE)	
)	---)	
BEFORE)	THE HONOURABLE)	Thursday, the
)	MADAM JUSTICE MORRISON)	27 th day of
))	April, 2006
))	

THE APPLICATION of the petitioner, Canfor Corporation (“Canfor”), 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 27th day of April, 2006 at the Courthouse at 800 Smithe Street, Vancouver, British Columbia and on hearing David R. Brown, counsel for Canfor, and **UPON READING** the Petition, the Notice of Motion and the Affidavit of David M. Calabrigo, sworn on April 27, 2006 (the “Calabrigo 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 Special Meeting of Shareholders (the “Notice”) and accompanying management information circular of Canfor (the “Information Circular”), attached as Exhibit “A” to the Calabrigo Affidavit.

SPECIAL MEETING

- Pursuant to section 291(2)(b)(i) and section 289(1)(a)(i) of the BCBCA, Canfor is authorized and directed to call, hold and conduct a special meeting (the “Meeting”) of the registered holders (the “Registered Canfor Shareholders”) of Common Shares in the authorized share structure of Canfor (“Canfor Shares”) to be held on Friday, June 9, 2006 at 10:00 a.m. (Vancouver time) in Canfor’s offices at 100-1700 West 75th Avenue, Vancouver, British Columbia, to:
 - consider and, if deemed advisable, pass, with or without variation, a special resolution (the “Arrangement Resolution”) approving in accordance with section 289(1)(a)(i) of the BCBCA an arrangement

substantially as contemplated in the Plan of Arrangement (the “Arrangement”), a draft of which special resolution is attached as Appendix A to the Circular; and

- (b) transact such other business as may properly come before the Meeting or any adjournment thereof.
3. The Meeting shall be called, held and conducted in accordance with the BCBCA, the Notice, the Information Circular, the articles of Canfor 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. Canfor is 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 Canfor Shareholders. 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.

ADJOURNMENTS AND POSTPONEMENTS

5. Notwithstanding the provisions of the BCBCA and the articles of Canfor, the Canfor Board of Directors by resolution shall be entitled to 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 Registered Canfor Shareholders respecting the adjournment or postponement. Notice of any such adjournment or postponement shall be given by press release, newspaper advertisement or notice sent to the Registered Canfor Shareholders by one of the methods specified in paragraph 8(a) of this Interim Order, as determined to be the most appropriate method of communication by the Canfor Board of Directors.

RECORD DATE

6. The record date (the “Record Date”) for determining Registered Canfor Shareholders entitled to receive the Notice, the Information Circular and the form of proxy for use by the Registered Canfor Shareholders (collectively, the “Meeting Materials”) shall be the close of business on April 25, 2006, as previously approved by the Board of Directors of Canfor and published by Canfor.

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 Canfor shall not be required to send to the Registered Canfor Shareholders 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 Canfor may advise are necessary or desirable, and as are not inconsistent with the terms of this Interim Order, shall be sent:
- (a) to Registered Canfor Shareholders determined as at 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 first class prepaid mail or by delivery in person or by recognized courier service, addressed to the Registered Canfor Shareholder at its address as it appears in the central securities register of Canfor as at the Record Date; or
 - (b) to Beneficial Canfor Shareholders (those whose names do not appear in the central securities register of Canfor), by providing, at least four business days before the twenty-first day prior to the Meeting, the requisite number of copies of the Meeting Materials to intermediaries and registered nominees to facilitate the broad distribution of the Meeting Materials to Beneficial Canfor Shareholders;
 - (c) at any time by email or facsimile transmission to any Canfor Shareholder who identifies himself to the satisfaction of Canfor (acting through its representatives), who requests such email or facsimile transmission and, if required by Canfor, agrees to pay the charges;
 - (d) to the directors and auditors of Canfor by first class prepaid 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 registered holders of Canfor Shares where mail previously sent to such holders by Canfor or its registrar and transfer agent has been returned to Canfor or its registrar and transfer agent on at least two previous consecutive occasions.

10. Accidental failure of or omission by Canfor to send the Meeting Materials to any one or more Canfor Shareholders, 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 Canfor (including, without limitation, any inability to use postal services) shall not constitute a breach of this Interim Order or, in relation to notice to Canfor Shareholders, a defect in the calling of the Meeting and 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 Canfor, 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, one (1) day after delivery thereof to the post office or public letter box;
 - (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 Beneficial Canfor Shareholders, three (3) 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 Canfor Shareholders by press release, news release, newspaper advertisement or by notice sent to the Canfor Shareholders by any of the means set forth in paragraph 8, as determined to be the most appropriate method of communication by the Board of Directors of Canfor.

PERMITTED ATTENDEES

13. The only persons entitled to attend the Meeting shall be:
 - (a) Registered Canfor Shareholders as at the close of business on the Record Date, or their respective proxyholders;
 - (b) Canfor directors, officers, auditors and advisors;
 - (c) Canfor Pulp Holding Inc. as general partner of Canfor Pulp Limited Partnership, Canfor Pulp Trust, Canfor Pulp Income Fund, Canadian Forest Products Ltd. and any of their subsidiaries or affiliates 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 Canfor Shareholders as at the close of business on the Record Date, or their respective proxyholders.

SOLICITATION OF PROXIES

14. Canfor is authorized to use the form of proxy for Registered Canfor Shareholders, in substantially the same form as is attached as Exhibit "C" to the Calabrigo Affidavit, subject to Canfor'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. Canfor is authorized, at its expense, to solicit proxies directly and through its officers, directors 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. Canfor may in its discretion generally waive the time limits for the deposit of proxies by Registered Canfor Shareholders, if Canfor deems it advisable to do so, such waiver to be endorsed by the initials on the proxy of the Chair.

QUORUM AND VOTING

17. The votes taken at the Meeting shall be taken on the basis of one (1) vote per Canfor Share and 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 Registered Canfor Shareholders, 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).
18. A quorum at the Meeting shall be not less than two Registered Canfor Shareholders present in person or by proxy and entitled to vote at such Meeting and holding or representing by proxy not less than 5% of the outstanding Canfor Shares carrying voting rights at the Meeting; provided that, if a quorum is not reached within one-half hour from the time set for the Meeting, the Meeting shall stand adjourned to the same day in the next week at the same time and place, and if at such succeeding Meeting a quorum is not present within one-half hour from the time set for the Meeting, the person or persons present and being, or representing by proxy, one or more Registered Canfor Shareholders entitled to vote at the Meeting shall constitute a quorum.

SCRUTINEERS

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 Canfor and to the Chair written reports on matters related to their duties.

DISSENT RIGHTS

20. Each Registered Canfor Shareholder is granted the following rights to dissent (the “Dissent Rights”) in respect of the Arrangement Resolution:
 - (a) a Registered Canfor Shareholder intending to exercise the Dissent Rights must give a written notice of dissent (a “Dissent Notice”) to Canfor, at its head office at 100 — 1700 West 75th Avenue, Vancouver, British Columbia, Canada V6P 6G2, Attention: Corporate Secretary, to be received by Canfor no later than 4:30 pm (Vancouver time) on June 7, 2006 and must comply with this paragraph 20;
 - (b) a Dissent Notice must specify the name and address of the Registered Canfor Shareholder, the number of Canfor Shares in respect of which the Dissent Notice is being given (the “Notice Shares”) and:
 - (i) if the Dissent Notice is being given by the Registered Canfor Shareholder on its own behalf, the Dissent Notice must state that either:
 - (A) the Notice Shares constitute all of the Canfor Shares of which the Registered Canfor Shareholder is the beneficial owner; or
 - (B) the Notice Shares constitute all of the Canfor Shares of which the Registered Canfor Shareholder is both the registered and beneficial owner, the number of Canfor Shares of which the Registered Canfor Shareholder is the beneficial owner but not the registered owner and, in respect of such shares of which the Registered Canfor Shareholder is only the beneficial owner, the names of the registered owners of such shares, the number of such shares held by each of them and that Dissent Notices are being, or have been, given in respect of all such shares;
 - (ii) if the Dissent Notice is being given by the Registered Canfor Shareholder on behalf of another person who is the beneficial owner of the Notice Shares, the Dissent Notice must so state and must also:
 - (A) state the name and address of the beneficial owner;
 - (B) state that the Notice Shares represent all of the Canfor Shares registered in the name of the Registered Canfor Shareholder which are beneficially owned by that beneficial owner; and
 - (C) include a statement from the beneficial owner of the Notice Shares stating the number of Canfor Shares of which the beneficial owner is either the registered owner or the beneficial owner and, in respect of any such shares which are not Notice Shares, stating the names of the registered owners of such shares and the number of such shares held by each of them, and that notices of dissent are being, or have been, given in respect of all such shares;

- (c) a Registered Canfor Shareholder must not vote in favour of the Arrangement Resolution any Canfor Shares registered in its name in respect of which the Registered Canfor Shareholder has given a Dissent Notice;
- (d) if the Arrangement Resolution is passed at the Meeting, Canfor must send by registered mail to every Registered Canfor Shareholder 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, Canfor intends to complete the Arrangement and advising the Registered Canfor Shareholder that if the Registered Canfor Shareholder wishes to proceed with its dissent, the Registered Canfor Shareholder must comply with the requirements of paragraph 20(e);
- (e) a Registered Canfor Shareholder that wishes to proceed with its dissent must give to Canfor at its head office at 100 — 1700 West 75th Avenue, Vancouver, British Columbia, Canada V6P 6G2, Attention: Corporate Secretary, to be received by Canfor no later than 4:00 pm (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 Canfor Shareholder requires Canfor to purchase all of the Notice Shares,
 - (ii) the certificates representing the Notice Shares, 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 Canfor Shares and, if so, states:
 - (I) the names of the registered owners of those other shares,
 - (II) the number of those other shares 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 shares;
- (f) if a Registered Canfor Shareholder fails to strictly comply with the foregoing requirements of the Dissent Rights with respect to any Notice Shares, Canfor shall return to the Registered Canfor Shareholder the certificates representing all of the Notice Shares of such Registered Canfor Shareholder, if any, delivered to it pursuant to paragraph 20(e), Canfor shall cease to have any further obligation to the Registered Canfor Shareholder under paragraph 20(j) with respect to those Notice Shares and, if the Arrangement is completed, that Registered Canfor Shareholder shall be deemed to have participated in the Arrangement with respect to those Notice Shares on the same terms as other Registered Canfor Shareholders who did not give a Dissent Notice to Canfor;
- (g) if a Dissent Notice is given to Canfor in respect of Notice Shares by a Registered Canfor Shareholder who is the beneficial owner of those Notice Shares, or by a Registered Canfor Shareholder on behalf of another person who is the beneficial owner of those Notice Shares, and the foregoing Dissent Rights are not strictly complied with in respect of all the Canfor Shares beneficially owned by that beneficial owner, Canfor shall return to the Registered Canfor Shareholder the certificates representing those Notice Shares, if any, delivered to it pursuant to paragraph 20(e), Canfor’s obligations under paragraph 20(j) shall terminate with respect to those Notice Shares and, if the Arrangement is completed, that Registered Canfor Shareholder shall be deemed to have participated in the Arrangement with respect to those Notice Shares on the same basis as other Registered Canfor Shareholders who did not give a Dissent Notice to Canfor.
- (h) a Registered Canfor Shareholder that complies with the foregoing requirements of the Dissent Rights (a “Dissenting Shareholder”) is not able to withdraw its dissent and, at the Effective Time, the Dissenting Shareholder will be deemed to have transferred to Canfor all of the Notice Shares (hereinafter the “Dissent Shares”) (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 Shares other than to be paid for the Dissent Shares in accordance with paragraph 20(j) and in no case shall Canfor be required to recognize such Dissenting Shareholder as a holder of those Dissent Shares at and after the Effective Time and the name of such Dissenting Shareholder shall be removed from Canfor’s central securities register with respect to those Dissent Shares as of the Effective Time;

- (i) if a Dissenting Shareholder complies with the foregoing requirements of the Dissent Rights, but the Arrangement is not completed, Canfor shall return to the Dissenting Shareholder the certificates representing the Dissent Shares, if any, delivered to it pursuant to paragraph 20(e) and Canfor shall have no obligations to the Dissenting Shareholder under paragraphs 20(j) and 20(k);
- (j) Canfor shall promptly pay to a Dissenting Shareholder, for each Dissent Share:
 - (i) the amount agreed upon by Dissenting Shareholder and Canfor; or
 - (ii) if that Dissenting Shareholder and Canfor are unable to agree upon an amount, the amount determined under paragraph 20(k); and
- (k) Canfor or a Dissenting Shareholder who has not reached an agreement with Canfor under paragraph 20(j)(i) may apply to the Court and the Court may:
 - (i) determine the fair value that the Dissent Shares 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 Shareholder, other than a Dissenting Shareholder who has reached an agreement with Canfor under paragraph 20(j)(i); and
 - (iii) make consequential orders and give directions it considers appropriate;

APPROVAL BY OTHER PARTIES

- 21. Pursuant to section 289(1)(e), the Approval of the Arrangement by all other parties to the arrangement, namely, Canfor Pulp Limited Partnership, Canfor Holding Inc., Canfor Pulp Trust, Canfor Pulp Income Fund and Canadian Forest Products Ltd. (the "Other Parties"), shall be adequately demonstrated by the act of each of the Other Parties in executing the Arrangement Agreement and agreeing to be contractually bound thereby.

APPLICATION FOR FINAL ORDER

- 22. Canfor 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 Calabrigo 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) Canfor, Canfor Pulp Holding Inc., Canfor Pulp Holding Inc. as general partner of Canfor Pulp Limited Partnership, Canfor Pulp Trust, Canfor Pulp Income Fund, Canadian Forest Products Ltd.; and
 - (b) 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 Canfor's counsel at:

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

Attention: David R. Brown

by or before 4:00 p.m. (Vancouver time) on June 13, 2006.


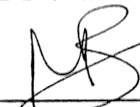
25. Upon the approval by the Registered Canfor Shareholders of the Arrangement, in the manner set forth in this Interim Order, Canfor may apply to this Court (the "Application") for an Order:
- (a) pursuant to section 291(4)(a) of the BCBCA approving the Arrangement; and
 - (b) pursuant to section 291(4)(c) of the BCBCA declaring that the Arrangement is fair and reasonable.
- (collectively the "Final Order")


and that the hearing of the Application will be held on June 15, 2006 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. Canfor 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



ENTERED
APR 27 2006
VANCOUVER REGISTRY
VOL 51374 FOL 96

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 CORPORATION

CANFOR CORPORATION

PETITIONER

INTERIM ORDER

STIKEMAN ELLIOTT LLP
Suite 1700, Park Place
666 Burrard Street
Vancouver, BC V6C 2X8
Telephone (604) 631-1300
Fax (604) 681-1825

COUNSEL: David R. Brown
FILE NO: 105911-1008

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 CORPORATION
CANFOR CORPORATION

PETITIONER

NOTICE OF PETITION

TO: The holders of Common shares of Canfor Corporation
AND TO: Canfor Pulp Holding Inc.
AND TO: Canfor Pulp Holding Inc. as general partner of
Canfor Pulp Limited Partnership
AND TO: Canfor Pulp Trust
AND TO: Canfor Pulp Income Fund
AND TO: Canadian Forest Products Ltd.

NOTICE IS HEREBY GIVEN that a Petition has been filed by Canfor Corporation (“Canfor”) 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 April 21, 2006 between Canfor, Canadian Forest Products Ltd., Canfor Pulp Income Fund, Canfor Pulp Trust, Canfor Pulp Holding Inc. and Canfor Pulp Holding Inc. as general partner of Canfor Pulp Limited Partnership.

NOTICE IS FURTHER GIVEN that by Order of the Honourable Madam Justice Morrison, a judge of the Supreme Court of British Columbia, dated the 27th day of April, 2006, the Court has given directions by means of an interim order (the “Interim Order”) as to the calling of a meeting of the registered holders of the outstanding Common shares of Canfor (the “Meeting”) for the purpose of, among other things, considering and voting upon the resolution to approve the Arrangement.

NOTICE IS FURTHER GIVEN that if the Arrangement is approved at the Meeting, Canfor intends 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 parties affected by it (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 Tuesday, the 15th day of June, 2006 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 Canfor’s address for delivery, which is set out below, on or before 4:00 p.m. (Vancouver time) on June 13, 2006.

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 holders of Common shares of Canfor.

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 holder of Common shares of Canfor upon request in writing addressed to the solicitors of Canfor at their address for delivery set out below.

Canfor's address for delivery is:

Stikeman Elliott LLP
Barristers and Solicitors
1700 - 666 Burrard Street
Vancouver, BC V6C 2X8
Attention: David R. Brown

DATED this 27th day of April, 2006.

“David R. Brown”

Solicitor for the Petitioner

APPENDIX C — ARRANGEMENT AGREEMENT
ARRANGEMENT AGREEMENT

THIS AGREEMENT made as of the 25th day of April, 2006

AMONG:

CANFOR CORPORATION, a company incorporated under the laws of British Columbia
(the “**Canfor**”)

— and —

CANADIAN FOREST PRODUCTS LTD., a company incorporated under the laws of British Columbia
(the “**CFP**”)

— and —

CANFOR PULP INCOME FUND, an unincorporated trust established under the laws of Ontario
(the “**Fund**”)

— and —

CANFOR PULP TRUST, an unincorporated trust established under the laws of Ontario
(the “**Trust**”)

— and —

CANFOR PULP HOLDING INC., a corporation incorporated under the laws of Canada
(the “**General Partner**”)

— and —

CANFOR PULP LIMITED PARTNERSHIP, a limited partnership formed under the laws of Manitoba
(the “**Partnership**”)

RECITALS:

A. Canfor intends to propose to its shareholders a reorganization, involving a series of transactions, under which the Pulp Business will be transferred by CFP to the Partnership and Canfor will issue or transfer to its shareholders one New Common Share and 0.1 of a Fund Unit in exchange for each Canfor Share held by them;

B. The parties hereto intend to carry out the transactions contemplated herein by way of an arrangement under section 288 of the *Business Corporations Act* (British Columbia);

C. The parties hereto have entered into this Agreement to provide for the matters referred to in the foregoing recitals and for other matters relating to such arrangement; and

D. Each of the parties hereto has agreed to participate in and support such arrangement and related transactions;

NOW THEREFORE THIS AGREEMENT WITNESSES THAT in consideration of the mutual covenants and agreements hereinafter set forth and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto covenant and agree as follows:

ARTICLE 1
INTERPRETATION

1.1 Definitions

In this Agreement, including the recitals hereto, unless there is something in the subject matter inconsistent therewith, all capitalized terms defined in the Plan of Arrangement will have the meanings therein ascribed to them and

the following terms will have the following meanings and grammatical variations of those terms will have corresponding meanings:

“**Acquisition Agreement**” means the asset purchase agreement attached hereto as Schedule 2;

“**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;

“**Exchange Agreement**” means the exchange agreement between CFP, the Fund, the Trust, the General Partner and the Partnership to be dated as of the Effective Date;

“**Fund Support Agreement**” means the fund support agreement among the Fund, the Trust, the Partnership and the General Partner to be dated as of the Effective Date;

“**Partnership Services Agreement**” means the partnership services agreement between CFP and the Partnership to be dated as of the Effective Date;

“**Plan of Arrangement**” means the plan of arrangement attached hereto as Schedule 1;

“**Shareholders’ Agreement**” means the unanimous shareholders’ agreement between CFP, the Trust, the General Partner, the Partnership and the Fund to be dated as of the Effective Date.

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, subsections, paragraphs and other portions 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 the contrary intention appears, references in this Agreement (excluding the Plan of Arrangement and the Acquisition Agreement) to an article, section, subsection, paragraph or schedule by number or letter or both refer to the article, section, subsection, paragraph or schedule, respectively, bearing that designation in this Agreement (excluding the Plan of Arrangement and the Acquisition 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, firms, trusts, bodies corporate, governments, governmental bodies, agencies or instrumentalities, unincorporated bodies of persons and associations.

ARTICLE 2

THE ARRANGEMENT AND RELATED TRANSACTIONS

2.1 Arrangement

As soon as reasonably practicable, and subject to compliance with the terms and conditions contained herein, Canfor shall:

- (a) apply to the Court under section 291 of the BCBCA for an order approving the Arrangement and in connection with such application shall:
 - (i) forthwith file, proceed with and diligently prosecute an application for an Interim Order under section 291 of the BCBCA providing for, among other things, the calling and holding of the Meeting for the purpose of considering and, if deemed advisable, passing the Arrangement Resolution; and

- (ii) subject to the passing of the Arrangement Resolution by the Registered Canfor Shareholders, as contemplated in the Interim Order, file, proceed with and diligently prosecute an application to the Court for the Final Order; and
- (b) subject to the satisfaction or waiver by Canfor of the conditions set out in Section 2.4, file with the Registrar a copy of the Final Order, a notice of alteration and such other documents as may be required to give effect to the Arrangement.

2.2 Interim Order

The Interim Order sought by Canfor shall provide that for the purpose of the Meeting:

- (a) the only securities which the holders shall be entitled to vote on the Arrangement Resolution shall be the Canfor Shares;
- (b) the Registered Canfor Shareholders shall be entitled to one vote for each Canfor Share held; and
- (c) the requisite majority for the passing of the Arrangement Resolution by the Registered Canfor Shareholders shall be two-thirds of the total votes cast by the Registered Canfor Shareholders voting as a single class, present in person or by proxy and entitled to vote at the Meeting.

2.3 Commitment to Effect

Subject to termination of this Agreement pursuant to Section 4.2 or otherwise, the parties hereto agree to be bound by the Plan of Arrangement and each shall use all reasonable efforts and do all things reasonably required to cause the Arrangement to become effective on such date as Canfor may determine.

2.4 Conditions Precedent

The respective obligations of the parties hereto to complete the transactions contemplated by this Agreement, and to file with the registrar a copy of the Final Order, a notice of alteration and such other documents as may be required to give effect to the Arrangement, shall be subject to the satisfaction of the following conditions:

- (a) the Interim Order shall have been granted in form and substance satisfactory to Canfor;
- (b) the Arrangement Resolution shall have been passed by the Registered Canfor Shareholders in accordance with the Interim Order;
- (c) the Final Order shall have been granted in form and substance satisfactory to Canfor;
- (d) the TSX shall have conditionally approved the listing of the New Common Shares and the Fund Units issuable or transferable under the Arrangement, subject to compliance with the normal listing requirements of the TSX;
- (e) Canfor shall have received satisfactory advice from Counsel as to the Canadian tax consequences of the Arrangement to Canfor and the Canfor Shareholders;
- (f) all other material consents, orders and approvals, including any regulatory or judicial approvals or orders, that Canfor considers necessary or desirable to effect the Arrangement shall have been obtained or received from the persons, authorities or bodies having jurisdiction in the circumstances on terms and conditions that are considered satisfactory or acceptable by Canfor;
- (g) Canfor's existing credit facilities shall have been amended in a manner satisfactory to Canfor;
- (h) arrangements satisfactory to Canfor shall have been made for the financing of the Partnership;
- (i) no order or decree restraining or enjoining the consummation of the Arrangement or any of the other transactions contemplated by this Agreement shall be in force immediately prior to the Effective Time;
- (j) the board of directors of Canfor shall have determined to proceed with the Arrangement having considered the number of Canfor Shares in respect of which Dissent Rights have been exercised; and
- (k) this Agreement shall not have been terminated under Section 4.2 or otherwise.

2.5 Merger of Conditions

The conditions set out in Section 2.4 shall be conclusively deemed to have been satisfied on the filing with the Registrar of a copy of the Final Order, a notice of alteration and such other documents as may be required to give effect to the Arrangement.

ARTICLE 3

GENERAL REPRESENTATIONS, WARRANTIES & COVENANTS

3.1 Representations and Warranties

The parties hereto represent and warrant as follows:

- (a) Canfor and CFP each represents that, it is a company duly incorporated and validly subsisting under the laws of the Province of British Columbia and has full capacity and authority to enter into this Agreement and to perform its covenants and obligations hereunder;
- (b) the General Partner represents that, it is a corporation duly incorporated and validly subsisting under the laws of Canada and has full capacity and authority to enter into this Agreement and to perform its covenants and obligations hereunder;
- (c) the Fund and the Trust each represents that, it is an unincorporated trust duly established under the laws of the Province of Ontario, and has full capacity and authority to enter into this Agreement and to perform its covenants and obligations hereunder;
- (d) the Partnership represents that, it is a limited partnership duly formed under the laws of the Province of Manitoba and has full capacity and authority to enter into this Agreement and to perform its covenants and obligations hereunder;
- (e) each of the parties hereto represents that this Agreement has been duly executed and delivered by it;
- (f) each of the parties hereto represents that neither the execution and delivery of this Agreement nor the performance of any of its covenants and obligations hereunder will constitute a material default under, or be in any material contravention or breach of:
 - (i) any provision of its constating documents;
 - (ii) any judgment, decree, order, law, statute, rule or regulation applicable to it; or
 - (iii) any agreement or instrument to which it is a party or by which it is bound; and
- (g) each of the parties hereto represents that no dissolution, winding-up, bankruptcy, liquidation or similar proceedings have been commenced or are pending or proposed in respect of it.

3.2 Covenants

Each of the parties covenants with each of the other parties that it will do and perform all such acts and things, and execute and deliver all such agreements, assurances, notices and other documents and instruments, as may reasonably be required to facilitate the carrying out of the intent and purpose of this Agreement including, without limitation:

- (a) the Acquisition Agreement;
- (b) the Shareholders' Agreement;
- (c) the Exchange Agreement;
- (d) the Partnership Services Agreement; and
- (e) the Fund Support Agreement.

ARTICLE 4
AMENDMENT AND TERMINATION

4.1 Amendment

Subject to any mandatorily applicable restrictions under the BCBCA or the Final Order, this Agreement, including the Plan of Arrangement, may at any time and from time to time before or after the holding of the Meeting be amended, modified or supplemented by Canfor in its sole discretion without further notice to or authorization on the part of the Registered Canfor Shareholders, provided that any such amendment, modification or supplement is filed with the Court before the Court approves the Final Order and, if made following the Meeting, approved by the Court and, if required by the Court, communicated to the Registered Canfor Shareholders.

4.2 Termination

This Agreement may at any time before or after the holding of the Meeting, and before or after the granting of the Final Order, be terminated and the Plan of Arrangement withdrawn by direction of the board of directors of Canfor without further action on the part of the Registered Canfor Shareholders, and nothing expressed or implied herein or in the Plan of Arrangement shall be construed as fettering the absolute discretion of the board of directors of Canfor to elect to terminate this Agreement and discontinue efforts to effect the Plan of Arrangement for whatever reason it may consider appropriate.

ARTICLE 5
GENERAL

5.1 Expenses

All expenses relating to the Arrangement shall be borne by Canfor. Following completion of the Plan of Arrangement, the Partnership shall reimburse Canfor for all expenses paid by Canfor.

5.2 Binding Effect

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

5.3 Assignment

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

5.4 Waiver

No waiver or release by any party hereto shall be effective unless in writing signed by the party granting the same.

5.5 Governing Law

This Agreement shall be governed by and construed in accordance with the laws of the Province of British Columbia and the laws of Canada applicable therein and shall be treated in all respects as a British Columbia contract.

5.6 Liability of the Trusts

The parties hereto acknowledge that the trustees of each of the Fund and the Trust are entering into this agreement solely in their capacity as trustees on behalf of the Fund or the Trust, as the case may be, and the obligations of the Fund and the Trust hereunder shall be binding upon the trustees thereof only in such capacity, provided that recourse against the trustees in such capacity or against any holder of units thereof in any manner in respect of any indebtedness, obligation or liability of the trustees arising hereunder or arising in connection herewith or from the matters in which this Agreement relates, if any, including without limitation claims based on negligence or otherwise tortious behaviour, shall be limited to, and satisfied only out of, as the case may be, the Fund Assets as defined in the declaration establishing the Fund or the Trust Assets as defined in the declaration establishing the Trust.

IN WITNESS WHEREOF the parties hereto have executed this Agreement as of the date first above written.

CANFOR CORPORATION

By: (signed) David Calabrigo

CANFOR PULP INCOME FUND

By: (signed) Jonathan Drance

CANFOR PULP LIMITED PARTNERSHIP

By: (signed) Jonathan Drance

CANADIAN FOREST PRODUCTS LTD.

By: (signed) David Calabrigo

CANFOR PULP TRUST

By: (signed) Jonathan Drance

CANFOR PULP HOLDING INC.

By: (signed) Jonathan Drance

SCHEDULE 1
PLAN OF ARRANGEMENT
ARTICLE 1
INTERPRETATION

1.1 Definitions

In this Plan of Arrangement, unless there is something in the subject matter or context inconsistent therewith, the following terms will have the respective meanings set out below and grammatical variations of those terms will have corresponding meanings:

- (a) “**1933 Act**” means the *United States Securities Act of 1933*, as amended;
- (b) “**1940 Act**” means the *United States Investment Company Act of 1940*, as amended;
- (c) “**Acquisition Agreement**” means the asset purchase agreement, in the form attached as Schedule 2 to the Arrangement Agreement, between CFP and the Partnership to be dated as of the Effective Date, setting out the terms of the transfer of the Pulp Business from CFP to the Partnership;
- (d) “**Arrangement**” means the arrangement under section 288 of the BCBCA contemplated by this Plan of Arrangement;
- (e) “**Arrangement Agreement**” means the arrangement agreement dated April 25, 2006 between Canfor, CFP, the Fund, the Trust, the General Partner and the Partnership providing for the completion of the Arrangement and related transactions, a copy of which is attached as Appendix C to the Information Circular;
- (f) “**Arrangement Resolution**” means the special resolution to be considered and voted on by Registered Canfor Shareholders at the Meeting, the full text of which is set out in Appendix A to the Information Circular;
- (g) “**Average Trading Price of Fund Units**” means, solely for the purpose of determining the payment to which a Registered Canfor Shareholder is entitled in respect of a fraction of a Fund Unit, an amount equal to the simple average of the closing prices of the Fund Units on the TSX for each of the first ten trading days on which the Fund Units are traded on the TSX;
- (h) “**BCBCA**” means the *Business Corporations Act* (British Columbia), as amended, and the regulations thereunder;
- (i) “**Business Day**” means a day, other than a Saturday, Sunday or statutory holiday, when banks are generally open in Vancouver, British Columbia, for the transaction of banking business;
- (j) “**Canfor**” means Canfor Corporation, a company incorporated under the laws of British Columbia;
- (k) “**Canfor Shares**” means the Common shares in the authorized share structure of Canfor as constituted immediately prior to the Effective Time;
- (l) “**CDS**” means The Canadian Depository for Securities Limited;
- (m) “**CFP**” means Canadian Forest Products Ltd., a wholly-owned subsidiary of Canfor, incorporated under the laws of British Columbia;
- (n) “**Class A LP Units**” means the class A units of the Partnership;
- (o) “**Court**” means the Supreme Court of British Columbia;
- (p) “**Depository**” means CIBC Mellon Trust Company or such other institution as Canfor may select;
- (q) “**Dissent Rights**” means the rights of a Registered Canfor Shareholder to dissent in respect of the Arrangement Resolution as set out in the Interim Order;
- (r) “**Dissent Shares**” means the Canfor Shares held by a Dissenting Shareholder in respect of which the Dissenting Shareholder has duly and validly exercised the Dissent Rights;
- (s) “**Dissenting Shareholder**” means a Registered Canfor Shareholder who has duly and validly exercised the Dissent Rights;

- (t) “**Effective Date**” means the date selected by Canfor as being the date upon which the Arrangement first becomes effective;
- (u) “**Effective Time**” means 12:01 a.m. on the Effective Date;
- (v) “**Final Order**” means the final order of the Court approving the Arrangement as such order may be amended by the Court at any time prior to the Effective Date or, if appealed, then, unless such appeal is withdrawn or denied, as affirmed or as amended on appeal;
- (w) “**Fund**” means Canfor Pulp Income Fund, an unincorporated open-ended limited purpose trust established pursuant to the Fund Declaration under the laws of the Province of Ontario;
- (x) “**Fund Declaration**” means the declaration of trust made as of April 19, 2006, governed by the laws of Ontario, pursuant to which the Fund was established, as amended, supplemented, restated or replaced from time to time;
- (y) “**Fund Units**” means the trust units of the Fund, each such unit representing an equal undivided beneficial interest in the Fund;
- (z) “**General Partner**” means Canfor Pulp Holding Inc., a corporation incorporated under the laws of Canada;
- (aa) “**Information Circular**” means, collectively, the notice of meeting and the management information circular of Canfor, including all appendices thereto, sent to Registered Canfor Shareholders in connection with the Meeting;
- (bb) “**Interim Order**” means the interim order of the Court in respect of the Arrangement dated April 27, 2006, a copy of which is attached to the Information Circular in Appendix B thereto;
- (cc) “**Letter of Transmittal**” means the letter of transmittal sent to Registered Canfor Shareholders which, when duly completed and returned with the certificate or certificates representing Canfor Shares and/or any other required documents, will enable Registered Canfor Shareholders to receive certificates representing New Common Shares and to designate the broker or other CDS participant through which they will hold their Fund Units;
- (dd) “**Meeting**” means the special meeting of the Registered Canfor Shareholders (including any adjourned or postponed meeting) to be called and held in accordance with the Interim Order to consider the Arrangement Resolution;
- (ee) “**New Common Shares**” means Common shares in the authorized share structure of Canfor to be created and issued to Registered Canfor Shareholders under the Arrangement;
- (ff) “**Non-Qualified U.S. Canfor Shareholder**” means a U.S. Canfor Shareholder who is not a Qualified U.S. Canfor Shareholder;
- (gg) “**Note Indenture**” means the note indenture to be entered into on or prior to the Effective Date between the Trust and CIBC Mellon Trust Company, as trustee thereunder, pursuant to which the Trust will issue the Trust Notes, as amended, supplemented, restated or replaced from time to time;
- (hh) “**Partnership**” means Canfor Pulp Limited Partnership, a limited partnership formed under the laws of the Province of Manitoba;
- (ii) “**person**” means any individual, partnership, firm, trust, body corporate, government, governmental body, agency or instrumentality, unincorporated body of persons or association;
- (jj) “**Plan of Arrangement**”, “**hereof**”, “**herein**”, “**hereunder**” and similar expressions mean this plan of arrangement and any amendments, variations or supplements hereto made in accordance with the terms hereof or the Arrangement Agreement or at the direction of the Court in the Final Order;
- (kk) “**Pulp Business**” means the business carried on by CFP consisting primarily of the production and sale of softwood market kraft pulp and bleached and unbleached kraft paper produced by CFP’s Intercontinental Pulp Mill, Northwood Pulp Mill and Prince George Pulp and Paper Mill;
- (ll) “**Qualified Purchaser**” has the meaning set forth in Section 2(a)(51)(A) of the 1940 Act;

- (mm) “**Qualified U.S. Canfor Shareholder**” means a U.S. Canfor Shareholder who is a Qualified Purchaser and who has, on or prior to the Effective Date, properly submitted (and not withdrawn) a Qualified Purchaser Certification in the form attached to the Letter of Transmittal to Canfor and the Fund that does not indicate that such U.S. Canfor Shareholder is ineligible to receive Fund Units;
- (nn) “**Registered Canfor Shareholder**” means a registered holder of Canfor Shares;
- (oo) “**Registrar**” means the Registrar of Companies appointed under the BCBCA;
- (pp) “**Sale Trustee**” means CIBC Mellon Trust Company or such other institution as Canfor may select.
- (qq) “**Tax Act**” means the *Income Tax Act* (Canada), as amended, and the regulations thereunder;
- (rr) “**Trust**” means Canfor Pulp Trust, an unincorporated trust established pursuant to the Trust Declaration under the laws of the Province of Ontario;
- (ss) “**Trust Declaration**” means the declaration of trust made as of April 19, 2006, governed by the laws of the Province of Ontario, pursuant to which the Trust was established, as amended, supplemented, restated or replaced from time to time;
- (tt) “**Trust Notes**” means the notes issued by the Trust from time to time in accordance with the Note Indenture;
- (uu) “**TSX**” means the Toronto Stock Exchange;
- (vv) “**United States**” or “**U.S.**” means the United States of America and any territory or possession thereof;
- (ww) “**U.S. Person**” means a U.S. Person as defined in Rule 902(k) under the Regulation S under the 1933 Act including, but not limited to, any natural person resident in the United States; and
- (xx) “**U.S. Canfor Shareholder**” means any Registered Canfor Shareholder who is, at the Effective Time, either resident in the United States or a U.S. Person.

1.2 Interpretation Not Affected by Headings, etc.

The division of this Plan of Arrangement into articles, sections, subsections, paragraphs and other portions and the insertion of headings are for convenience of reference only and shall not affect the construction or interpretation hereof. Unless otherwise indicated, all references to an “Article”, “Section”, “Subsection” or “Paragraph” followed by a number and/or a letter refer to the specified Article, Section, Subsection or Paragraph of this Plan of Arrangement.

1.3 Number and Gender

In this Plan of Arrangement, unless the context otherwise requires, words importing the singular include the plural and vice versa. Words importing gender include all genders.

1.4 Time

Time shall be of the essence in every matter or action contemplated hereunder. All times expressed herein are local time (Vancouver, British Columbia) unless otherwise stipulated herein or therein.

1.5 Currency

Unless otherwise stated, all references in this Plan of Arrangement to sums of money are expressed in lawful money of Canada.

ARTICLE 2
ARRANGEMENT

2.1 Arrangement Binding

At the Effective Time, the Arrangement shall be binding upon Canfor, Registered Canfor Shareholders, CFP, the General Partner, the Partnership, the Trust and the Fund.

2.2 The Arrangement

At the Effective Time, despite any provision of the BCBCA, the following shall occur and shall be deemed to occur in the following order without any further act or formality:

- (a) the transactions contemplated by the Acquisition Agreement to occur at the Effective Time shall occur and be completed;
- (b) CFP shall transfer to the Trust all of the Class A LP Units CFP receives from the Partnership under the Acquisition Agreement and, in exchange for those Class A LP Units, the Trust shall issue to CFP Trust Notes having an aggregate principal amount equal to the value of those Class A LP Units;
- (c) CFP shall transfer to the Fund all of the Trust Notes issued to CFP by the Trust and, in exchange for those Trust Notes, the Fund shall issue to CFP that number of Fund Units equal to 10% of the number of Canfor Shares issued immediately prior to the Effective Time;
- (d) CFP shall reduce the capital in respect of its Common shares by an amount equal to the value at the Effective Time of all of the Fund Units issued to CFP by the Fund, and shall distribute those Fund Units to Canfor on such reduction;
- (e) the identifying name of the Canfor Shares shall be changed from “Common” shares to “Class A Common” shares, there shall be created and attached to the Canfor Shares the special right set out in Appendix “A” to this Plan of Arrangement, the New Common Shares, being shares without par value, shall be created as a class, the identifying name of the New Common Shares shall be “Common” shares, the maximum number of New Common Shares which Canfor is authorised to issue shall be 1,000,000,000 shares, there shall be added to Canfor’s articles Part 26 thereof as set out in the said Appendix “A”, and Canfor’s notice of articles shall be altered accordingly;
- (f) each Registered Canfor Shareholder shall transfer to Canfor, free and clear of any mortgage, hypothec, prior claim, lien, pledge, assignment for security, security interest, right of third parties or other charge or encumbrance whatsoever, all its Canfor Shares and:
 - (i) in exchange for each Canfor Share, other than a Dissent Share, Canfor shall issue as fully paid or transfer to the Registered Canfor Shareholder, one New Common Share and 0.1 of a Fund Unit;
 - (ii) for each Dissent Share, the Dissenting Shareholder shall be entitled to receive from Canfor an amount agreed upon with Canfor or equal to the fair value thereof determined in accordance with the Dissent Rights; and

the capital in respect of the Canfor Shares shall be reduced to zero and the aggregate capital in respect of the New Common Shares upon their issuance shall be equal to the aggregate paid-up capital, for the purposes of the Tax Act, in respect of the Canfor Shares immediately prior to the Effective Time, less the aggregate amount payable by Canfor pursuant to the Dissent Rights and less the value at the Effective Time of all of the Fund Units transferred by Canfor to Registered Canfor Shareholders and less the aggregate amount payable by Canfor to Registered Canfor Shareholders in lieu of fractional Fund Units; and

- (g) with respect to each Canfor Share:
 - (i) the Registered Canfor Shareholder thereof shall cease to be the Registered Canfor Shareholder of such Canfor Share and the name of the Registered Canfor Shareholder shall be removed from the central securities register of Canfor with respect to such Canfor Share;
 - (ii) such Canfor Share shall be cancelled; and

- (iii) other than with respect to Dissent Shares, the Registered Canfor Shareholder shall be registered in the central securities register of Canfor as the holder of New Common Shares as set out in Paragraph 2.2(f)(i).

As soon as practicable after the Effective Time, without any further act or formality, the Canfor Shares as a class shall be eliminated from the authorized share structure of Canfor, the special right attached to the Canfor Shares and Part 26 of Canfor's articles shall be deleted, and Canfor's notice of articles shall be altered accordingly.

2.3 Determination of Amounts

As soon as practicable after the Effective Time, the Directors of Canfor, acting reasonably, will determine, and file at the records office of Canfor a certificate setting out, the aggregate amount paid by Canfor pursuant to the Dissent Rights, the value at the Effective Time of all of the Fund Units transferred by Canfor to Registered Canfor Shareholders and the aggregate amount paid by Canfor to Registered Canfor Shareholders in lieu of fractional Fund Units.

ARTICLE 3 DISSENT RIGHTS

3.1 Dissent Rights

A Registered Canfor Shareholder may exercise the Dissent Rights in connection with the Arrangement Resolution in the manner set out in the Interim Order.

ARTICLE 4 CERTIFICATES FOR NEW COMMON SHARES AND REGISTRATION OF FUND UNITS

4.1 Right to New Common Shares and Fund Units

- (a) Canfor shall, as soon as practical following the later of the Effective Date and the date of deposit with the Depository by a Registered Canfor Shareholder of a duly completed Letter of Transmittal and the certificate formerly representing its Canfor Shares and/or other documentation as provided in the Letter of Transmittal, cause the Depository either:
 - (i) to forward or cause to be forwarded by first class mail (postage prepaid) to the Registered Canfor Shareholder at the address specified in the Letter of Transmittal; or
 - (ii) if requested by the Registered Canfor Shareholder in the Letter of Transmittal, to make available at an office of the Depository specified in the Letter of Transmittal for pick-up by the Registered Canfor Shareholder; or
 - (iii) if the Letter of Transmittal neither specifies an address nor contains a request as described in (ii), to forward or cause to be forwarded by first class mail (postage prepaid) to such Registered Canfor Shareholder at the address of such Registered Canfor Shareholder as shown in the central securities register of Canfor as at the Effective Time,

a certificate representing the number of New Common Shares issuable to such Registered Canfor Shareholder as determined in accordance with the provisions hereof. Canfor shall provide the Depository with sufficient certificates representing New Common Shares for this purpose. In addition, Canfor shall cause the Depository to record with CDS the name of the broker or other CDS participant through which the Registered Canfor Shareholder has elected in the Letter of Transmittal to hold its Fund Units.

- (b) Each Registered Canfor Shareholder entitled to receive New Common Shares under the Arrangement shall be and be deemed to be the registered holder for all purposes as of the Effective Time of the number of New Common Shares to which such Registered Canfor Shareholder is entitled under the Arrangement. As of the Effective Time, the Depository shall be and be deemed to be the registered holder for all purposes of each Fund Unit until such time as the Depository has recorded with CDS the name of the broker or other CDS participant through which a Registered Canfor Shareholder has elected to hold the Fund Units it is entitled to receive under the Arrangement, except that the Depository shall not be deemed to be the registered holder of Fund Units to which a Non-Qualified U.S. Canfor Shareholder would be entitled if it were a Qualified

U.S. Canfor Shareholder and, instead, the Sale Trustee shall be and be deemed to be the registered holder of such Fund Units as of the Effective Time.

- (c) All dividends paid or other distributions made on or after the Effective Time on or in respect of any New Common Shares which a Registered Canfor Shareholder is entitled to receive under the Arrangement, but for which a certificate is not yet delivered to such Registered Canfor Shareholder in accordance with Subsection 4.1(a), shall be paid or made to such Registered Canfor Shareholder, without interest, when the certificate formerly representing the Canfor Shares of such Registered Canfor Shareholder and/or other documentation as provided in the Letter of Transmittal is deposited in accordance with Subsection 4.1(a).
- (d) All distributions made on or after the Effective Time on or in respect of any Fund Units registered in the name of the Depositary shall be paid by the Depositary, without interest, to the Registered Canfor Shareholder entitled to receive such Fund Units under the Arrangement, when the certificate formerly representing the Canfor Shares of such Registered Canfor Shareholder and/or other documentation as provided in the Letter of Transmittal is deposited in accordance with Subsection 4.1(a).
- (e) Subject to Article 3, after the Effective Time, any certificate formerly representing Canfor Shares shall cease to represent any right with respect to Canfor Shares and shall represent only the right to receive New Common Shares and to designate the broker or other CDS participant through which it will hold its Fund Units in accordance with this Plan of Arrangement and any dividend or other distribution to which the Registered Canfor Shareholder is entitled under Subsection 4.1(c) or 4.1(d), and any such certificate formerly representing Canfor Shares not duly deposited on or prior to the sixth anniversary of the Effective Date shall cease to represent a claim or interest of any kind or nature, including a claim for dividends or other distributions under Subsection 4.1(c) or 4.1(d), against Canfor or the Fund by a Registered Canfor Shareholder. On such date, all New Common Shares and Fund Units to which the Registered Canfor Shareholder was entitled shall be deemed to have been surrendered to Canfor.

4.2 Delivery of Fund Units to Sale Trustee

- (a) Notwithstanding the foregoing:
 - (i) Fund Units that are to be transferred under the Arrangement to a Non-Qualified U.S. Canfor Shareholder will be transferred to the Sale Trustee, for sale of such Fund Units by the Sale Trustee on behalf of that Non-Qualified U.S. Canfor Shareholder; and
 - (ii) if it appears to Canfor that it would be contrary to applicable law to transfer Fund Units pursuant to the Arrangement to a person that is not a resident of Canada, the Fund Units that are to be transferred under the Arrangement to that person will be transferred to the Sale Trustee, for sale of such Fund Units by the Sale Trustee on behalf of that person.
- (b) The Fund Units transferred to the Sale Trustee pursuant to Subsection 4.2(a) will be pooled and sold in the Canadian market as soon as practicable after the Effective Date, on such dates and at such prices as the 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 Fund Units sold by it. Each Non-Qualified U.S. Canfor Shareholder and each person referred to in Paragraph 4.2(a)(ii) will receive such person's *pro rata* share of the net cash proceeds from the sale of the Fund Units by the Sale Trustee in lieu of Fund Units (net of withholding taxes). The net proceeds will be remitted in the same manner as set forth in subsection 4.1(a). Neither Canfor, the Sale Trustee nor the Fund will be liable for any loss arising out any such sales.
- (c) The Sale Trustee will pay to each Non-Qualified U.S. Canfor Shareholder who has submitted a properly completed and executed Qualified Purchaser Certification indicating it is not eligible to receive Fund Units, the fees and costs associated with pooling and selling such Non-Qualified U.S. Canfor Shareholder's Fund Units. The Sale Trustee will remit such fees and costs to the Non-Qualified U.S. Canfor Shareholder at the same time and in the same manner as it remits to such Non-Qualified U.S. Canfor Shareholder its *pro rata* share of the net cash proceeds from the sale of the Fund Units. Canfor shall provide the Sale Trustee with sufficient funds to make the foregoing payments.

4.3 Fractional Fund Units

Notwithstanding the foregoing, no fractional Fund Units shall be transferred by Canfor to a Registered Canfor Shareholder. In lieu of a fractional Fund Unit, a Registered Canfor Shareholder who would otherwise receive a fraction of a Fund Unit shall receive a cash payment from Canfor equal to the product of such fractional interest and the Average Trading Price of Fund Units.

ARTICLE 5

AMENDMENT AND WITHDRAWAL

5.1 Amendment of Plan of Arrangement

- (a) Canfor reserves the right to amend, modify and supplement this Plan of Arrangement at any time and from time to time, provided that any amendment, modification or supplement must be contained in a written document which is filed with the Court and, if made following the Meeting, approved by the Court and communicated to Registered Canfor Shareholders in the manner required by the Court (if so required).
- (b) Any amendment, modification or supplement to this Plan of Arrangement may be proposed by Canfor 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 the persons voting at the Meeting will become part of this Plan of Arrangement for all purposes.
- (c) Any amendment, modification or supplement to this Plan of Arrangement which is approved or directed by the Court following the Meeting will be effective only if it is consented to by Canfor (acting reasonably).

5.2 Withdrawal of Plan of Arrangement

This Plan of Arrangement may be withdrawn prior to the Effective Time in accordance with the terms of the Arrangement Agreement.

APPENDIX "A" TO PLAN OF ARRANGEMENT
PART 26 OF ARTICLES OF CANFOR CORPORATION

26 CLASS A COMMON SHARES

26.1 Voting Right

The holders of the Class A Common shares of the Company shall have the right to receive notice of, and to attend and vote in person or by proxy at, general meetings of the Company and to cast two votes for each Class A Common share held.

SCHEDULE 2
ACQUISITION AGREEMENT

[intentionally deleted]

APPENDIX D — CANFOR AFTER THE SPINOUT

NOTICE TO READER

Following completion of the Spinout, Canfor will continue to own, directly or indirectly, all of the assets of its Lumber and Panel Business, and will have an 80% interest in the Pulp Business owned by the Partnership. The disclosure contained in this Appendix has been prepared assuming that the Spinout has been completed and that the Fund holds a 20% indirect interest in the Pulp Business owned by the Partnership.

CANFOR AFTER THE SPINOUT

Following completion of the Spinout, Canfor will continue to be a Canadian forest products company involved primarily in the Lumber and Panel Business, with production facilities in British Columbia, Alberta, Québec and the United States. Canfor will also continue to own the Taylor pulp mill and will have an 80% interest in the Pulp Business owned by the Partnership.

Canfor will continually investigate opportunities to develop and improve its solid wood products business and may make corporate or asset acquisitions or asset dispositions at any time, some of which may be material. As of the date hereof, Canfor has not reached any definitive agreement on any potential material acquisitions or dispositions. Canfor may finance any acquisition transaction with debt or equity, or a combination of both.

Canfor was incorporated under the laws of British Columbia on May 17, 1966. Canfor's head and registered office is located at 100-1700 West 75th Avenue, Vancouver, British Columbia V6P 6G2.

RECENT DEVELOPMENTS

On March 6, 2006, Canfor completed the acquisition of New South. New South operates three sawmills, one remanufacturing facility and two lumber treating facilities located in North and South Carolina. The annual capacity of New South's facilities is 425 million board feet of lumber, primarily southern yellow pine.

On March 17, 2006, Canfor completed the transfer of its Englewood Logging Operations (the "**Englewood Operations**") on northern Vancouver Island, including TFL37 and certain timber licences, to a new fibre partnership, Coastal Fibre Limited Partnership ("**Coastal Fibre LP**") jointly and equally owned by Canfor (through CFP) with Oji Paper Canada Ltd. ("**Oji Canada**"). In return for the transfer, Canfor received a partnership interest in the limited partnership with an agreed value of \$45 million and Oji Canada contributed an equivalent amount of cash. The assets comprising the Englewood Operations were then transferred by Coastal Fibre LP to Western Forest Products Inc. ("**WFP**") in return for, among other things, a long term fibre supply agreement with WFP pursuant to which WFP will supply fibre for sale by the partnership to Howe Sound Partnership. For financial statement purposes, as a consequence of the transfer of the Englewood Operations, Canfor's Coastal Operations segment has been reclassified as a discontinued operation and all comparative figures restated. Notwithstanding this reclassification, historical production, sales and other information regarding the Coastal Operations have, unless otherwise stated, been included in the disclosure included in this Appendix D.

Canfor reported net income of \$18.9 million for the first quarter of 2006, or \$0.13 per Canfor Share on a diluted basis, compared to income of \$65.6 million for the first quarter of 2005 and a loss of \$12.3 million for the fourth quarter of 2005. Net income before foreign exchange translation losses, discontinued operations and other one-time adjustments was \$20.9 million or \$0.15 per Canfor Share. EBITDA was \$83.3 million in the quarter, or approximately 9% of sales, versus \$23.7 million, or 3% of sales, in the previous quarter. The improvement of nearly \$50 million versus the previous quarter is mainly as a result of improved productivity at most operations and higher prices for lumber and pulp (5% higher for lumber and 4% higher for pulp), which offset the impact of weaker panel prices (plywood 3% lower and OSB 10% lower) and the 2% strengthening in the Canadian dollar in the quarter. While pulp shipments were generally flat quarter over quarter, shipments for lumber, OSB and plywood were respectively 10%, 33% and 12% higher.

On April 27, 2005 the Canadian and United States' federal governments announced that the framework for a softwood lumber agreement between Canada and the United States had been approved. Until a definitive softwood lumber agreement is reached, the impact on Canfor of the proposed settlement of the softwood lumber dispute cannot be determined.

At the annual meeting of Canfor Shareholders held on April 28, 2006, Canfor's Shareholder Rights Plan (the "**Rights Plan**"), originally implemented in November 1999, expired. At the meeting, Canfor Shareholders approved a Shareholder Rights Plan Policy designed to provide them with a means to obtain protections similar to those contemplated by the Rights Plan in the event of a formal take-over bid for the Canfor Shares. The Shareholder Rights Plan Policy affirms that the Board of Directors will not adopt a shareholder rights plan without the prior approval of a majority of the holders of the Canfor Shares, except if the Board of Directors, including a majority of its independent directors, determines that it would be in the best interests of Canfor and the Canfor Shareholders to adopt a shareholder rights plan without prior shareholder approval; that rights plan expires on the earlier of the date 75 days from following its adoption and the date of the next meeting of Canfor Shareholders; and the terms and conditions of that rights plan are modelled on the Rights Plan.

THE BUSINESS OF CANFOR AFTER THE SPINOUT

Business Focus

Following completion of the Spinout, Canfor's remaining assets will be concentrated in its Lumber and Panel Business. Canfor is the largest spruce-pine-fir ("**SPF**") lumber producer in the world. Softwood lumber production facilities are located in British Columbia, Alberta, Québec and the United States with an annual production capacity, including New South, of 5.1 billion board feet of lumber, 450 million square feet of plywood ($\frac{3}{8}$ inch basis) and 1.0 billion square feet of OSB ($\frac{3}{8}$ inch basis). On March 6, 2006, Canfor completed the acquisition of New South, which added three sawmills, one remanufacturing facility, and two lumber treating facilities to its operations, with an annual capacity for 425 million board feet of lumber, primarily southern yellow pine. Canfor's products also include remanufactured and finger-jointed lumber, hardboard, refined fibre and logs.

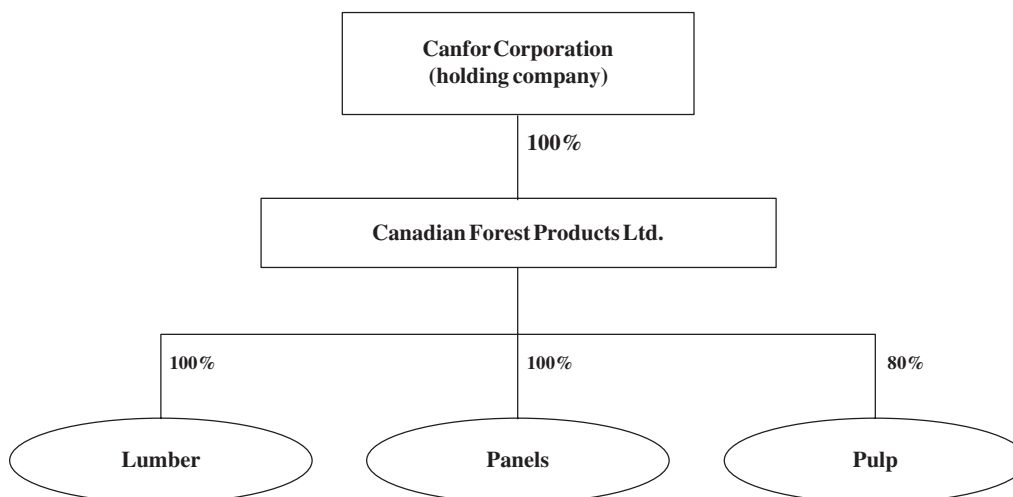
Canfor also holds approximately 10.3 million cubic metres of annual harvesting rights under its forest tenures, after reflecting the sale of the Englewood Operations with approximately 943,000 cubic metres of harvesting rights in March 2006. See "Recent Developments" and "Wood Supply — Timber Resources".

Canfor's products are exported primarily to the United States, Europe and the Far East. Canfor maintains wood products sales offices in Vancouver and Toronto, Canada and Tokyo, Japan.

Business Segments

Canfor's business is reported in three segments: Lumber, Panels and Pulp. The Lumber segment includes Canfor's sawmill and manufacturing operations and the Panels segment includes Canfor's OSB, plywood and panel and fibre operations.

The following chart outlines Canfor's business segments and their respective principal operations:



- 13 sawmills in British Columbia, one in Alberta and one in Québec, with an annual productive capacity of 4.7 billion board feet
- 3 sawmills located in North and South Carolina with an annual productive capacity of 425 million board feet
- Finger-jointing and lumber remanufacturing operations
- Woodlands operations with an allowable annual cut of 10.2 million m³ (9.1 million m³ in British Columbia)
- Lumber and plywood marketing
- Two plywood mills with an annual production capacity of 440 million square feet (2/3" basis)
- OSB mill with an annual production capacity of 650 million square feet (2/3" basis)
- Panel and Fibre operation
- 50% interest in Peace Valley OSB mill with an annual production capacity of 820 million square feet (2/3" basis)
- 80% interest in the Pulp Business with an annual capacity of over 1 million tonnes of kraft pulp and 135,000 tonnes of kraft paper
- 100% interest in Taylor pulp mill with an annual capacity of 212,300 tonnes: BCTMP pulp

The following table sets forth, by business segment, Canfor's sales revenues from continuing operations from its wholly owned and other operations for the last three financial years:

	Year Ended December 31		
	2005	2004⁽¹⁾	2003⁽¹⁾
	(millions of dollars)		
Lumber	\$2,545.6	\$2,640.0	\$1,443.4
Panels	365.7	368.8	121.7
Pulp	876.5	916.2	789.9
Total sales	<u>\$3,787.8</u>	<u>\$3,925.0</u>	<u>\$2,355.0</u>

Note: (1) These figures have been reclassified to conform to the 2005 presentation.

The following table indicates the composition of Canfor's consolidated sales revenues by market for the last two financial years:

	Year Ended December 31	
	2005	2004⁽¹⁾
Canada	12%	20%
United States	67	61
Far East and other	14	12
Europe	<u>7</u>	<u>7</u>
Total	<u>100%</u>	<u>100%</u>

Note: (1) These figures have been reclassified to conform to the 2005 presentation.

The foregoing two tables include the result of the Slocan Forest Products Ltd. from April 1, 2004, the date of completion of the business combination with Slocan. These tables exclude the results of the Slocan, Valemount and Fort St. James facilities disposed of in 2005 and the results of the Coastal Operations segment as a result of the sale of the Englewood Operations in March 2006, all of which have been reclassified as discontinued operations.

WOOD SUPPLY

Timber Resources

Canfor harvests timber under forest tenures held by it in British Columbia, northern Alberta and southern Québec, and has a total AAC of approximately 10.3 million cubic metres, after reflecting the sale of the Englewood Operations in March 2006 with an aggregate AAC of approximately 943,000 cubic metres. This also reflects reductions to Canfor's AAC in British Columbia (including reductions under tenures formerly held by Slocan) in the spring of 2003 as a result of the significant changes described below to legislation governing the British Columbia forest industry. The total reduction was 2.37 million cubic metres. Reductions came into effect in December 2004 (as to 319,919 cubic metres), March 2005 (as to 1,632,195 cubic metres) and December 2005 (as to 45,652 cubic metres). A further reduction under this legislation occurred in March 2006 (as to 371,858 cubic metres). Notwithstanding these reductions, Canfor's fibre base continues to be one of the largest in Canada.

Canfor's wood fibre requirements are also met by open market purchases and exchanges on either a spot or contract basis. Canfor holds several types of forest tenures in the provinces of British Columbia, Alberta and Québec, which permit the harvesting of Crown timber.

The following table sets forth Canfor's timber resources as at December 31, 2005:

	<u>Productive Area (hectares)</u>	<u>Allowable Annual Cut (cubic metres)</u>
British Columbia		
Tenures having regulated sustained yields ⁽¹⁾		
Area-based — Tree Farm Licences ⁽²⁾	951,865	1,884,971
Volume-based — Forest Licences (replaceable)	N/A	7,682,808
— Forest Licences (non-replaceable).....	N/A	485,000
Tenures without regulated sustained yields		
Timber Licences ⁽³⁾	2,200	120,000
Alberta		
Tenures having regulated sustained yields		
Forest Management Agreement	331,187	630,400
Timber Quotas	N/A	212,281
Québec		
Tenures having regulated sustained yields		
Forest Management Agreement	N/A	190,000
Timber Supply and Forest Management Agreement	N/A	30,640
Total	1,285,252	11,236,100

Notes:

- (1) For an explanation of "regulated sustained yields", see "Forest Management" below.
- (2) Comprised of TFL 18 (Clearwater), TFL 30 (Sinclair), TFL 37 (Nimpkish) and TFL 48 (Chetwynd). As part of the transfer of the Englewood Operations, Canfor disposed of TFL 37 with an aggregate AAC of 943,000 cubic metres on March 17, 2006.
- (3) Total inventory volume of 642,000 cubic metres to be depleted over the next five years.

Note: N/A denotes Not Applicable.

Canfor obtains additional wood fibre through contractual rights to purchase logs by way of business relationships with First Nations and other licensees.

The Province of British Columbia owns approximately 95% of all timberlands in the province. Pursuant to the provisions of the *Forest Act* (British Columbia) ("Forest Act"), the Minister of Forests (the "Minister") is empowered to grant various forms of tenure and to regulate forestry operations.

A Tree Farm Licence ("TFL") requires a licensee to undertake to manage an area of Crown forestland, often in combination with other forestland held by the licensee, to yield an annual cut on a regulated sustained yield basis. TFLs are granted for a 25-year term and, subject to satisfactory levels of performance, will be replaced every five to ten years with a new TFL having a 25-year term. Canfor's currently held TFLs have all been replaced for a 25-year term: TFL 48 (Chetwynd) in 1998, TFL 30 (Sinclair) and TFL 18 (Clearwater) in 2001.

A Forest Licence is a volume-based tenure which authorizes a right to harvest a specified volume of timber each year within a particular timber supply area ("TSA") and generally provides for 15-year terms. These licences may be replaced every five to ten years for further 15-year terms, subject to satisfactory levels of performance. Canfor holds 13 replaceable Forest Licences, all of which were replaced between 1998 and 2003. In 2003, the Government of British Columbia passed legislation that has delayed the further replacement of all Forest Licences in B.C. until the provincial process for consultation and accommodation of First Nations has been completed. Canfor holds four non-replaceable Forest Licences, one expiring in each of 2006, 2008, 2010 and 2014. Canfor also holds two non-replaceable Forest Licences under joint venture agreements with West Moberly First Nations, which licences expire in 2023. Timber Licences are a non-renewable form of tenure, which the licensee surrenders to the Crown after the timber, to which the licence applies, has been harvested and silviculture obligations have been fulfilled.

In February 2003, Canfor's Chetwynd operation and the West Moberly First Nation were jointly issued a 20-year non-replaceable Forest Licence with an AAC of 100,000 cubic metres in the Dawson Creek TSA. In January 2004, Canfor's Fort St. John operation and the West Moberly First Nation were also issued a 20-year non-replaceable Forest Licence with an AAC of 150,000 cubic metres in the Fort St. John TSA. The awarding of these licences was conditional upon Canfor adding to its sawmilling capacity in the region, forming a partnership with the West Moberly First Nation for the forest management of these licences and forming alliances to supply lumber to secondary

manufacturers in the region. The provincial Government issued Forest Licences effective February 12, 2003 in the Dawson Creek TSA and January 1, 2004 in the Fort St. John TSA.

In addition, Canfor has five Pulpwood Agreements with the Province of British Columbia which grant a holder the right to obtain licences to harvest up to a specified volume of timber within a particular geographic area, subject to certain conditions. Canfor has the right, if necessary, to supply the requirements of the Partnership's three pulp mills at Prince George under Pulpwood Agreement No. 1, which expires in 2018, Pulpwood Agreement No. 3, which expires in 2020, and Pulpwood Agreement No. 7, which expires in 2022. None of these Pulpwood Agreements are replaceable under the Forest Act and Canfor has not needed to access timber under these or their predecessor agreements since 1976. Canfor also has the right under Pulpwood Agreement No. 12 to up to 500,000 cubic metres of deciduous timber per year in the Fort St. John Timber Supply Area in connection with the Taylor Pulp Mill and the Peace Valley OSB mill in Fort St. John and under Pulpwood Agreement No. 14 to up to 610,000 cubic metres of deciduous timber per year in the Fort Nelson Timber Supply Area in connection with the Canfor's OSB mill in Fort Nelson.

For each Forest Licence and TFL, an AAC is determined. The actual cut in any one year may vary from year to year provided that the actual cut over a five-year period does not exceed 110% of the aggregate AAC for that period. As required by the Forest Act, the provincial Chief Forester determines the AAC for each TFL and the total AAC in each TSA (which affects the AAC of Forest Licences in that TSA) in the Province. The Chief Forester is required to repeat such determination every five years, but has the option of postponing a redetermination for a period of up to ten years after the last determination if he concludes that the AAC will not change significantly from the previous determination. The AAC reflects harvesting practices in the previous five years, timber conditions, regional and local economic and social interests and environmental considerations for these licences and areas.

In March 2003, the Government of British Columbia introduced its Forestry Revitalization Plan and related legislation that provided for significant changes to Crown forest policy and to the existing allocation of Crown timber tenures to licensees. The changes prescribed in the Plan include the elimination of minimum cut control requirements, the elimination of existing timber processing requirements and the elimination of restrictions limiting the transfer and subdivision of existing licences. Under the Forestry Revitalization Plan, the government's consideration of changes of control or tenure transfers is limited to the impact of such changes or transfers on competition in the standing timber markets, log markets or chip markets. The Plan also provided that licensees, including Canfor, were required to return 20% of their replaceable tenure to the Crown, approximately half of which would be redistributed to create opportunities for woodlots, community forests and First Nations and the other half would be available for public auction. Canfor received \$57 million in compensation for the return of approximately 2.37 million cubic metres of tenure and a preliminary payment of \$5 million for related infrastructure costs such as roads and bridges.

Canfor does not expect that the take-back, as identified, will adversely affect its ability to obtain adequate timber supplies for its operations or materially affect the costs of obtaining those supplies.

In northern Alberta, Canfor has a Forest Management Agreement ("FMA") #9900037 under which it undertakes to manage a designated area of Crown forestland. This FMA was renewed in 1999 for a 20-year period. In June 2003, the Government of Alberta approved the Detailed Forest Management Plan for the FMA and determined the coniferous AAC for the term of the FMA (1999-2019) to be 630,400 cubic metres.

The Province of Alberta also grants Timber Quotas having terms of 20 years and containing provisions for renewal. These quotas are intended to provide a continuous supply of timber in perpetuity. As a result of the amalgamation of forest management units by the Province of Alberta during 2004, Canfor now has two Timber Quotas, which expire in 2021 and 2024 respectively.

Canfor's regulated sustained yield tenures in Alberta specify an AAC and an aggregate allowable cut over a five-year period. The actual cut during each five-year period must be at least 60% of the aggregate specified for that period for the tenure to remain in good standing. Canfor would be subject to significant levies if its production were to exceed 110% of the aggregate allowable cut for that period.

In the Province of Québec, the Minister of Natural Resources, Wildlife and Parks has a number of tools for allocating timber harvesting rights and associated forest resource management responsibility. They include Timber Supply and Forest Management Agreements ("TSFMA") and Forest Management Agreements ("FMA"). Both require the agreement holder to fulfill management obligations similar to those in British Columbia with regard to planning, monitoring, and reporting activities. A TSFMA is a volume-based agreement that authorizes an owner of a wood processing mill to harvest an annual amount of volume from a specified timber supply area. A licence holder is

evaluated based on the collective forest management and environmental performance of all operators within the timber supply area and on the effective utilization of the allocated volume by the individual mill owner. An FMA is a volume based agreement by which a single licensee is responsible for the management of a forest reserve where no TSFMA or Forest Management Contracts (“FMC”) have been granted.

Canfor acquired Daaquam and Anticosti, two lumber and timber harvesting companies based in Québec in May, 2003. Anticosti has woodlands and harvesting operations on Anticosti Island located in the Gulf of St. Lawrence and holds an FMA with an AAC of 190,000 cubic metres. The timber is sold on a market price basis with Daaquam having first right of refusal on 65,000 cubic metres. Daaquam maintains a TSFMA near Saint Just-de-Bretenières with an annual harvest allocation of 30,640 cubic metres. Canfor secures an additional volume of wood for its Québec operations through procurement contracts with suppliers in Ontario, Québec and the U.S.

Canfor is in substantial compliance with the harvesting terms of all of its tenure agreements in British Columbia, Alberta and Québec.

Mountain Pine Beetle

The mountain pine beetle continues to pose a significant threat to the lodgepole pine forests in the interior regions of British Columbia. A significant portion of this infestation is within Canfor’s operating areas. Lodgepole pine accounts for 25% of the total timber volume harvested in British Columbia and more than 50% of the total timber volume harvested by Canfor.

The mountain pine beetle infestation now impacts approximately 411 million cubic metres of lodgepole pine throughout the interior of British Columbia (as compared to 280 million cubic metres in March 2005) and has spread at a rate that has averaged approximately 59% per year for the last five years. The Quesnel, Prince George, Morice and Lakes TSAs, all integral to Canfor manufacturing facilities, continue to be the most heavily impacted. In addition, the infestation also impacts at least seven other TSAs in which Canfor operates including the Kamloops, Mackenzie, and Dawson Creek TSAs. Although the levels of attack are still relatively low, the rate of spread in the Dawson Creek TSA is high and it does present a risk to the Chetwynd operation. There is in the Dawson Creek TSA also a risk of entry of mountain pine beetle into Canfor’s Alberta FMA area, which is approximately 40% lodgepole pine. This risk has resulted in an ongoing joint effort by Canfor, the Ministry of Forests & Range, Weyerhaeuser Company and the Alberta Government to attempt to suppress the beetle in the Dawson Creek TSA.

Canfor is working with the Ministry of Forests & Range and other operators in several areas to implement an aggressive program to mitigate the spread of infestation by redirecting planned timber development to infected regions over the next five years. This has resulted in nearly 85% of the wood supply to the Partnership’s Prince George area mills being from beetle infested stands.

The average diameter of affected lodgepole pine logs tends to be smaller than traditional harvests and has required some realignment and re-tooling of manufacturing facilities in the Prince George region to fit with the changing fibre supply. In the short-term, Canfor has undertaken major capital expenditures to realign its Prince George area manufacturing capabilities to accommodate the increase in fibre from beetle-infested logs. If the outbreak continues to spread, the potential implications for Canfor include an eventual reduced fibre supply, a change in lumber product mix, increased costs and a potential decrease in the quality of lumber and chips produced. The general consensus is that beetle-killed timber will remain merchantable for 5 to 15 years, depending on local site conditions. Research to gain more information about “shelf-life” is one of the projects relative to the mountain pine beetle that Canfor is supporting.

The Provincial government’s focus in Quesnel, Prince George, Morice and the Lakes TSAs among others has shifted to salvage of beetle-killed timber rather than on suppression activities. In 2004, the Provincial Chief Forester revised the AAC in the Quesnel, Prince George and the Lakes TSAs upward by approximately four million cubic metres to encourage salvage activities. Several new non-replaceable forest tenures have been and will be advertised for those areas, inviting proposals for the use of this salvage volume. Managing the potential safety issues associated with this increased harvesting activity continues to be a key focus for Canfor. Eventually (10 to 20 years from now), the AAC in the affected TSAs will have to be reduced to counter-balance the current increases in AAC. The extent of these future reductions is unknown at this time.

Late in 2004 Canfor, in conjunction with the City of Prince George and local Ministry of Forests & Range representatives, developed recommendations for a salvage strategy for affected lodgepole pine trees on provincial

Crown land, city land and private property within the city limits. The Minister of Forests acted on these recommendations by offering the City of Prince George a community forest tenure. Canfor is assisting the City with their efforts to apply for and manage this tenure.

Aboriginal Issues

In 1997, the Supreme Court of Canada in the *Delgamuukw* decision confirmed the continued existence of Aboriginal title and rights to lands continuously used or occupied by Aboriginal groups. As a result, Aboriginal groups have claimed Aboriginal title and rights over substantial portions of British Columbia, including areas where Canfor's forest tenures are situated. This decision has added to uncertainty regarding property rights in Canada (including forest tenure and other resource rights), particularly in much of British Columbia and other areas where treaties have not been concluded with Aboriginal groups. In 2005, the Supreme Court of Canada made an important decision relevant to the forest industry in the *Bernard and Marshall* case. In this decision, the Supreme Court held that Aboriginal title to forest resources had not been established as claimed by Aboriginal groups in New Brunswick and Nova Scotia. The Supreme Court held that although proof of Aboriginal title must be sensitive to the Aboriginal perspective, it must nevertheless meet common law standards of proof of title.

In November 2004, the Supreme Court of Canada in *Haida v. British Columbia* and *Taku River v. British Columbia* confirmed that the duty to consult with Aboriginal groups arises when the Crown has knowledge, real or constructive, of the potential existence of an Aboriginal right or title and contemplates conduct that might adversely impact it. Notably, the Court found that the duty to consult is a Crown obligation that does not extend to third parties such as forestry companies. While the Crown can delegate "procedural aspects" to third parties, legal responsibility rests with the Crown. Third parties cannot be held liable for the Crown's failure to consult. While the Crown is required to consult in good faith, Aboriginal consent is not required and Aboriginal groups do not have a veto over government decisions. While these decisions provide improved clarity regarding the duty to consult, it may take some time for other related issues regarding consultation and accommodation that were not addressed by the Supreme Court to be resolved and for governments and Aboriginal groups to respond and adapt to the Supreme Court's decisions. This may result in some continued uncertainty as further refinements of the duty to consult and accommodate are made. Canfor will continue to cooperate, communicate and exchange information and views with Aboriginal groups in order to foster good relationships and minimize risks to its tenures and operational plans and will continue to participate with the Province in its consultations with Aboriginal groups. Due to the complexity of Aboriginal title issues, it is not expected that the issues of Aboriginal title in British Columbia will be finally resolved in the near to medium term.

Forest Management

Canfor is responsible for all aspects of forest management on the lands within its TFLs in British Columbia. In Alberta, Canfor is responsible for all aspects of forest management on the lands covered by its FMA except forest fire protection, which is a responsibility of the Province of Alberta. In Québec, Canfor is responsible for all aspects of forest management on lands specified within its FMCs. The lands held under TFLs, FMAs, FMCs, TSFMA, Forest Licences and Timber Quotas are managed on a "sustained yield" basis, whereby the volume of timber harvested is regulated according to the productive capacity of the land and the inventory of mature timber available for harvest. In Alberta, British Columbia and Québec, Canfor is responsible for reforestation of areas logged on all of its sustained yield tenures as well as on Timber Licences. The overall management of forestlands held under Forest Licences, Timber Quotas and Timber Licences is the responsibility of the respective Forest Services of British Columbia and Alberta.

The Coast Forest Region of British Columbia implemented the Market Pricing System ("MPS") for timber harvested on Crown land on February 29, 2004. This replaced the long-standing Comparative Value Pricing ("CVP") system, which had been in place since October 1, 1987 for all timber harvested by Canfor (as well as other operators) on the coast. In contrast to the CVP system, MPS uses competitive auction-based prices to derive the stumpage rates for licence holders on the coast. On implementation of the MPS, stumpage rates for harvested timber fell to reflect market levels at the time. Overall, Canfor expects that the MPS will result in lower average stumpage rates in the coastal region than under the CVP system.

In the interior region of British Columbia, Canfor is actively participating in discussions with the Ministry of Forests over market-based or other possible stumpage pricing options for this region, where the CVP system is currently in place. Log grade changes affecting the price of beetle killed sawlogs came into effect on April 1, 2006. The Province of British Columbia announced that the BC interior will switch to a market-based timber pricing system by

September 2006. In the interim, Canfor will continue to seek to manage and reduce the stumpage costs for its interior operations under the CVP.

On December 31, 2004, the *Integrated Pest Management Act*, which replaces the *Pesticide Control Act*, came into effect. This legislation promotes the use of integrated pest management when dealing with forest pests and regulates the use of pesticides. This legislation also promotes a more flexible approach to forest management while still achieving mandated levels of environmental protection. The main activities that will be impacted by this legislation are vegetation management associated with plantations and some forest health and beetle management activities.

Canfor carries out its forest management responsibilities through a full-time staff of 140 registered professional foresters, technologists and biologists, as well as additional professional staff on part-time and contract basis. This forestry staff is engaged in supervising all aspects of forest development including planning, road development, harvesting methods and forest protection, and in research and development programs to increase the yield of its forestlands and improve the quality of its timber resources. Canfor currently operates, directly or under contract, seed orchards for the genetic improvement of forest seed at Sechelt and Vernon, British Columbia, and at Grande Prairie, Alberta. As part of the sale of the Englewood Operations, Canfor has sold certain quantities of seed stock from the Sechelt orchard to WFP and has agreed to maintain that orchard for a minimum of three years.

Canfor's forestry staff supervises the reforestation of all harvested areas, which, in 2005, involved the planting of 55 million seedlings on 48,000 hectares and reforestation by natural regeneration on an additional 5,000 hectares. This compares to 44,000 hectares harvested during 2005.

In 2002, the provincial government established the Forest Investment Account ("FIA"). The FIA is a government mechanism for promoting sustainable forest management, forest management research, and market and product development in British Columbia. Funding for the program is approved annually by the legislature to authorize certain forest management activities. In April 2003, Canfor entered into an agreement with the provincial government under which the government will fund over \$5.0 million annually for land based investments across Canfor's operating areas within British Columbia. Canfor is responsible for the implementation and delivery of the investments within this program.

Customers of forest products companies increasingly require assurances that products purchased are derived from well-managed forests. Canfor has responded by implementing a comprehensive third-party sustainable forest management ("SFM") certification strategy to verify the quality of its forest management practices.

Canfor retains an International Organization for Standardization ("ISO") 14001 certification of its environmental management system for its forest operations, first obtained in 1999 and re-certified as required for subsequent 3-year terms. In addition, Canfor retains certification under the Canadian Standards Association ("CSA") standard for sustainable forest management (CAN/CSA Z809) for its FMA area at Grande Prairie, Alberta, for its TFLs at Chetwynd, Prince George, and Vavenby, British Columbia, for its Forest Licences at Fort St. John, Houston, Prince George, Fort Nelson, Vanderhoof, Vavenby and Quesnel, British Columbia, and for its Pulpwood Agreements at Fort St. John and Fort Nelson, British Columbia.

Canfor is committed to having sustainable forest management certification in place for all of its tenures.

Wood Fibre Supply

The wood fibre supply for Canfor's, Howe Sound Partnership's and OSB LP's lumber, panels and pulp and paper operations is obtained by logging on Canfor's forest tenures and purchasing logs, chips and waste materials from the manufacture of wood products. Logs are purchased from other tenure holders and from farmers, Aboriginal groups and other private landholders. Chips and waste materials are purchased from sawmillers and other wood products producers. Often, Canfor trades logs with these sawmillers and other wood products producers, receiving chips and waste materials in exchange. As part of the sale of the Coastal Operations, Coastal Fibre LP has entered into a long term fibre supply agreement with WFP which will be used to supply wood fibre for the Howe Sound Partnership operations.

The following table sets forth the volume of wood fibre produced and purchased, the volume of wood fibre consumed in Canfor's, the Partnership's and Howe Sound Partnership's mills, and the volume of wood fibre sold to other wood fibre consumers for the last three financial years.

	Year Ended December 31	
	2005 ⁽¹⁾	2004 ⁽¹⁾⁽²⁾
	('000 cubic metres)	
Production from Canfor's timber tenures ⁽¹⁾		
Coastal British Columbia	76	243
Central/Northern Interior of British Columbia	12,060	8,842
Northern Alberta	985	1,093
Eastern Region (Québec)	<u>267</u>	<u>335</u>
Total production	<u>13,388</u>	<u>10,513</u>
Purchases		
Logs	6,600	7,061
Chips ⁽³⁾	<u>3,909</u>	<u>4,374</u>
Total Purchases	<u>10,509</u>	<u>11,435</u>
Total production and purchases	23,897	21,948
Trades and sales		
Logs ⁽⁴⁾	709	699
Chips ⁽⁵⁾	<u>1,495</u>	<u>2,451</u>
Total traded and sales	<u>2,204</u>	<u>3,150</u>
Total available for conversion into finished goods	<u>21,693</u>	<u>18,798</u>
Total converted by Canfor, the Partnership and Howe Sound Partnership into finished goods ..	<u>21,080</u>	<u>19,252</u>

(1) Excludes the results of the Slocan, Valemount and Fort St. James facilities disposed of in 2005 and the results of the Coastal Operations as a result of the sale of the Englewood Operations in March 2006, all of which have been reclassified as discontinued operations.

(2) Includes the results of Slocan's operations from the completion of the combination with Slocan on April 1, 2004.

(3) Included in chip purchases are 413,298 cubic metres (2004 — 445,182 cubic metres) purchased from Lakeland and Winton Global, in which Canfor owns a one-third interest.

(4) These sales are primarily coastal logs that are traded to obtain chips and waste materials.

(5) Included in chip sales are 353,583 cubic metres (2004 — 462,699 cubic metres) of chips sold by the Alberta operations and 152,794 cubic metres (2004 — 141,144 cubic metres) of chips sold by the Québec operations where Canfor does not have a pulp mill.

Note: Waste materials used for fuel and hardboard furnish in the Panel and Fibre operation are excluded from this table because of the difficulty in determining a reasonable conversion factor to solid wood equivalent.

Canfor's two whole-log chipping facilities have available capacity to supplement its supply of sawmill residual chips. The chipping facilities are capable of producing 325,000 oven-dried tonnes of chips annually.

Historically, Canfor has competed successfully for the chips required that cannot be supplied by Canfor's own sawmills and timber tenures and does not expect that this situation will change in 2006.

First Nations Business Relationships

Canfor is a party to various business relationships with Aboriginal groups, which collectively provide direct and indirect contractual access to an aggregate AAC of approximately 320,000 cubic metres. Canfor has a 49% ownership in an unincorporated joint venture with the Moricetown Indian Band in the Kyahwood Forest Products Joint Venture, which owns and operates a value-added fingerjoint stud, lumber and fascia plant located in Moricetown, British Columbia. Canfor's Wood Products Marketing group markets the Kyahwood production. Canfor also provides raw materials to the Lheidli T'enneh Band which operates Chunzoohl Forest Products, a roofing shake plant located in Shelley, 15 kilometres north of Prince George, British Columbia.

Canfor owns a 22% interest in Takla Track & Timber Ltd. (“**TTT**”) entitling Canfor to its proportionate share of the annual harvest from Forest Licences held by TTT in the Prince George region. The operations on TTT’s Forest Licences are managed through an agreement with Takla Forest Management Ltd. (“**TFML**”), a separate company owned by the shareholders of TTT for the purposes of managing TTT’s Forest Licences.

Canfor established an alliance with the Tl’azt’en Nation of Tache, British Columbia in 1996 to increase the volume of logs available to its sawmills and pulp mills. Canfor currently provides assistance to the Tl’azt’en Nation in the operation of their TFL. In return, Canfor has access to the production from the TFL.

Canfor’s Chetwynd and Fort St. John operations and the West Moberly First Nation jointly hold 20-year non-replaceable Forest Licences in the Dawson Creek and the Fort St. John TSAs. See “Wood Supply — Timber Resources” above.

LUMBER

Lumber Production Facilities

As at December 31, 2005, Canfor operated 13 sawmills in the central and northern interior of British Columbia, one sawmill in northern Alberta and one sawmill in Québec. These sawmills have the annual capacity to produce approximately 4.7 billion board feet of lumber, ranking Canfor as the largest SPF lumber producer in the world. The majority of lumber produced by Canfor from these facilities is construction and specialty grade dimension lumber that ranges in size from one by three inches to two by twelve inches and in lengths from six to twenty-four feet. A growing portion of Canfor’s lumber production is comprised of specialty products that command premium prices and include machine stress rated (“**MSR**”) lumber that is used in engineering applications such as roof trusses and floor joists. Other specialty products include Square Edge lumber for the North American market and J-grade lumber for the Japanese market.

Canfor’s Fort St. James, Slocan and Valemout operations in British Columbia were sold in 2005. In addition to these divestitures, Canfor also permanently closed the following operations in 2005 — the Hines Creek sawmill in Alberta, the Specialty mill at Quesnel, B.C. and the Tackama sawmill in Fort Nelson, B.C.

Canfor completed the acquisition of New South in March 2006. New South operates three sawmills, one remanufacturing facility and two lumber treating facilities located in North and South Carolina. The annual capacity of New South’s facilities is 425 million board feet of lumber, primarily southern yellow pine.

As a by-product of Canfor’s lumber production facilities, wood chips are produced from the portion of each log not converted into lumber, and these wood chips are sold to pulp mills for use as their raw material. In addition, Canfor extracts pulpwood from its northern forestry operations and converts this wood to chips for its pulp and paper operations as needed to supplement its supply of wood chips. Canfor also owns and operates two whole-log chipping facilities capable of producing 325,000 oven-dried tonnes of wood chips annually. The facilities are located adjacent to Canfor’s sawmills.

Canfor also has the following secondary manufacturing operations: finger-joint mills at one of its sawmills in the interior of British Columbia and at its Grande Prairie, Alberta sawmill and MSR lumber facilities at seven of its sawmills. Canfor also has two lumber remanufacturing operations — one in the lower mainland of British Columbia and one in Bellingham, Washington — that produce a wide range of specialty products. In addition, Canfor directs substantial volumes of lumber to custom remanufacturers in British Columbia and Alberta for processing into higher value products.

The following table sets forth Canfor's lumber production and sales for the last two financial years:

	<u>Year Ended December 31</u>	
	<u>2005⁽¹⁾</u>	<u>2004⁽¹⁾⁽²⁾</u>
	(Mfbm) ⁽³⁾	
Production		
British Columbia	4,238,711	3,794,753
Alberta	271,936	331,455
Québec	<u>113,847</u>	<u>108,697</u>
	<u>4,624,444</u>	<u>4,234,905</u>
Sales	<u>4,681,065</u>	<u>4,247,315</u>

- (1) Excludes the results of the Slocan, Valemount and Fort St. James facilities disposed on in 2005 and the results of the Coastal Operations as a result of the sale of the Englewood Operations in March 2006, all of which have been reclassified as discontinued operations.
- (2) Includes the results of Slocan's operations from April 1, 2004.
- (3) Mfbm denotes thousand foot board measure.

Since the imposition of CVD and ADD, Canfor has continued to position itself to reduce operating costs and maintain market share by operating at full capacity during 2005, except for three days at the end of the year and construction-related curtailment as a result of a mill upgrade of the Plateau operation.

Canfor harvests logs from tenures located in the northern interior region of British Columbia and northern Alberta to supply Canfor's interior lumber operations. Canfor's total AAC for these areas was approximately 12 million cubic metres in 2005. The revised level of AAC for this area in 2006 is expected to be 10.2 million cubic metres of annual cut, net of the take-back under the Forestry Revitalization Plan, with any shortfall in mill requirements being made up with wood purchased from these areas (see "Wood Supply — Timber Resources" above). In March 2006, Canfor sold its coastal Englewood Operations with an AAC of approximately 943,000 cubic metres to Coastal Fibre LP which subsequently sold those operations to WFP. This coastal fibre was previously sold to supply fibre to the Howe Sound Partnership, but not Canfor's interior operations. As part of the transaction with WFP, Coastal Fibre LP has obtained a long term fibre supply agreement with WFP, the fibre from which will be sold to the Howe Sound Partnership.

The following table sets forth the log production from Canfor's tenures located in the northern interior region and log purchases and wood chip production from the northern interior region for the last two financial years:

	<u>Year Ended December 31</u>	
	<u>2005⁽¹⁾</u>	<u>2004⁽¹⁾⁽²⁾</u>
Log Production (cubic metres)	13,043,425	9,960,859
Log Purchases (cubic metres)	6,141,891	4,107,311
Wood Chip Production (oven-dried tonnes)	2,246,320	2,188,937

- (1) Excludes the results of the Slocan, Valemount and Fort St. James facilities disposed on in 2005 and the results of the Coastal Operations as a result of the sale of the Englewood Operations in March 2006, all of which have been reclassified as discontinued operations.
- (2) Includes the results of Slocan's operations from April 1, 2004.

Lumber Distribution

Canfor markets lumber products throughout North America and overseas. In addition to its own production, Canfor also markets lumber produced from independent mills in North America and offshore countries to complement its product line. In 2005, approximately 79% of Canfor's lumber sales were made to United States markets and 13% to Canadian markets. Virtually all lumber destined for North America was shipped by truck and rail. Canfor leases a fleet of 300 railway cars to ensure adequate rail car supply throughout the year. The remaining 8% of shipments went offshore, principally to Japan, but also to Korea, China, Taiwan and Europe. Offshore modes of transportation consisted of 80% by container ship and 20% by break-bulk (non-container) carrier.

Lumber Markets

In 2005, lumber demand was extremely strong as new home construction reached record levels in the U.S. and Canada. Relative low interest rates, steady income growth and high consumer confidence contributed to all sectors of the housing market. Total U.S. housing starts were 2.06 million units, a 6% increase from the 1.95 million units in 2004, and the highest level since 1972⁽¹⁾. Single-family housing starts were 1.7 million, the highest ever. In Canada, low interest rates and positive economic conditions resulted in the second highest housing starts since 1988. Total housing starts were 223,900 units, down 4% from the record high of 233,431 units in 2004⁽²⁾.

Increased residential construction resulted in strong demand for building materials by North American homebuilders. With U.S. single-family starts gaining share of total housing starts, Canfor shipments to professional building materials suppliers (“**Pro Dealers**”) posted double-digit percent increases to this sector. During the year, customers continued to demand higher quality lumber and increased product consistency. Reflecting this trend, Canfor has increased production of high margin-added products.

Home improvement retailers, such as Home Depot and Lowe’s, also benefited from the rise in housing activity. Strong demand for existing homes pushed home sales to record levels, which resulted in a corresponding increase in house prices. With low mortgage rates and home prices appreciating, consumers refinanced their mortgages to pay for a variety of home upgrades, leading to very strong repair and renovation activity.

During the course of the year, the Canadian dollar strengthened against the U.S. dollar by 7%, reducing the competitiveness of Canadian lumber producers. In addition, with supply readily available throughout the supply chain, Western SPF 2”x4” average #2&Btr prices decreased by 10% from 2004 levels to an average US\$354 per Mfbm⁽³⁾ in 2005.

Canfor’s J-grade lumber destined for Japan is used in wooden 2”x4” housing, which has experienced steady growth for many years. Total 2”x4” housing starts increased by 6% during 2005 to a record high of 95,843 units, while total housing starts increased by 4% to 1.24 million units during 2005⁽⁴⁾. Japan’s strong 2”x4” housing starts in the second half of the year and the six-week long independent container truckers’ strike in June did hamper Canfor’s shipments to Japan.

Canfor’s sales and marketing efforts to Asia’s emerging markets such as China and Southeast Asia region resulted in shipments increasing by 10% over shipment volumes in 2004. Strong sales, particularly to China, reflected Canfor’s efforts to grow market share in the expanding western-style housing market. With this region’s acceptance of North American-style wood-frame construction building codes, more Canadian SPF dimension lumber is expected to be used in this developing market.

Sources: (1) U.S. Census Bureau, (2) Statistics Canada, (3) Random Lengths Publications, and (4) Japan Ministry of Land, Infrastructure and Transportation.

Human Resources

Canfor employs approximately 3,712 persons in its Lumber operations in British Columbia, 198 persons in its operations in Alberta, 292 persons in its Québec operations and 154 persons in its operations in the United States. Of these, approximately 76% are covered by collective agreements with the United Steel Workers of America (“**USWA**”), the Communications, Energy and Paperworkers Union (“**CEP**”) and the Pulp, Paper and Woodworkers of Canada (“**PPWC**”). The collective agreements with the USWA and the PPWC, which represent the majority of the workers in the British Columbia operations, expire in June 2009. Those agreements provide for wage increases totalling 11% over a six-year term.

The contract with the CEP, which represents workers at Canfor’s Grande Prairie operation, expired in February 2004. Negotiations for the renewal of this contract were concluded in early 2005. The agreement is similar to Canfor’s B.C. lumber operations agreement and provides for wage increases totalling 11% over a 6 year term.

According to 2005 provincial statistics compiled by the Forest Industry Advisory Service (“**FIAS**”) covering nine multi-division lumber operations, Canfor’s sawmills ranked third lowest in the industry in lost-time frequency and third lowest in medical incidents rates.

PANELS

Canfor operates two OSB plants and two plywood mills in the northern interior of British Columbia and the Panel and Fibre operation located in New Westminster, British Columbia.

The Fort Nelson OSB plant has an annual capacity to produce 650 million square feet ($\frac{3}{8}$ " basis) of OSB panel product in a variety of thicknesses and sizes. This plant uses primarily aspen timber to produce a consistently high quality product, which is available from only a few other OSB producers in North America. This plant completed upgrades to its production facilities in 2005 which are expected to result in a 21% increase in production capacity in 2006.

Canfor, with its partner, Louisiana-Pacific Canada Ltd., completed construction and commenced operations of an OSB plant in Fort St. John, British Columbia in 2005. Production at Peace Valley OSB began late in the fourth quarter of 2005. Annual capacity of this new plant is 820 million square feet ($\frac{3}{8}$ " basis).

The combined annual capacity of the two plywood mills is 450 million square feet ($\frac{3}{8}$ " basis). The Fort Nelson plywood mill produces a range of products used in industrial, commercial, residential and specialty plywood applications. The Prince George plywood mill is certified with respect to Canadian softwood and Douglas fir plywood and for Japanese grading standards. This mill has been modernized over the past few years to automate some of its more labour-intensive production stages and to increase the mill's efficiency when processing smaller diameter logs.

The following table sets forth Canfor's OSB and plywood production and sales for the last two financial years:

	Year Ended	
	December 31	
	2005	2004⁽¹⁾
	<small>(Msf $\frac{3}{8}$"⁽²⁾)</small>	
Production		
OSB	478,797	384,753
Plywood	<u>433,314</u>	<u>356,648</u>
	<u>912,111</u>	<u>741,401</u>
Sales		
OSB	469,254	379,646
Plywood	<u>435,654</u>	<u>343,591</u>
	<u>904,908</u>	<u>723,237</u>

(1) Includes the results of Slocan's operations from April 1, 2004.

(2) Msf denotes thousand square feet.

Panel and Fibre Operation

Canfor produces hardboard paneling, refined fibre and wood fibre composite mat products at its Panel and Fibre operation in New Westminster, British Columbia for building, automotive and industrial uses. The hardboard plant, with an annual operating capacity of 48 million square feet ($\frac{3}{8}$ " basis), is one of two hardboard plants in Canada. Baled dry fibre is produced from wood residues and is used as a raw material for hardboard production, cement board products and in the manufacturing of molded products for the automotive industry. Refined fibre is used to produce products for the hydro-seeding business.

Panels Distribution

In 2005, approximately 78% of Canfor's OSB sales were made to United States markets and 22% to Canadian markets. For plywood, approximately 85% of Canfor's 2005 sales were made to Canadian markets and 14% to United States markets. The remaining 1% of 2005 shipments went to Japan. Virtually all panel products destined for North America were shipped by truck and rail. Canfor leases a fleet of railway cars to ensure adequate rail car supply throughout the year. Plywood shipped overseas traveled 80% by container ship and 20% by break-bulk (non-container) carrier.

Panels Markets

Canfor's OSB production is primarily Performance Rate Sheathing, which is used in wall construction of new homes and in repair and remodelling projects. Although there was strong demand for OSB during 2005, there was also abundant supply, which resulted in a 13% reduction in average prices to US\$320 per Msf $\frac{7}{16}$ " North Central⁽¹⁾.

Canfor's plywood is used in home construction and specialty industrial applications. The primary product of Canfor's plywood operations is sheathing, which is used to frame walls in the construction of new homes. In 2005, 18% of production was Select grade, which attracts a price premium over the standard sheathing grade. The plywood market experienced the same strong housing demand as the lumber market but prices suffered from over supply. The average 2005 price for Canadian Softwood Plywood was Cdn\$458 per Msf $\frac{3}{8}$ " basis, delivered to Toronto, a 27% decrease from 2004.⁽²⁾

Sources: (1) Random Lengths Publications, (2) Crow's Publications.

Human Resources

Canfor employs approximately 979 persons in its Panels operations in British Columbia. Of these, approximately 66% are covered by collective agreements with the USWA and the PPWC. In negotiations with the Panel and Fibre operation, Canfor and the union agreed to accept the terms and annual wage increases of the next two negotiated agreements between the Coast forest industry and the USWA. That agreement provides a total of 6% in wage increases and expires on June 14, 2007. The collective agreements with the USWA and the PPWC representing the employees at Canfor's plywood operations expire in June 2009. Currently, a total of 130 employees at the Fort Nelson OSB plant and 116 employees at OSB LP are not currently part of any collective agreement.

According to 2005 provincial statistics compiled by FIAS covering three multi-division panel operations, Canfor's Panels operations ranked second lowest in the industry in lost-time frequency and the lowest in medical incidents rates.

PULP

Canfor Pulp Limited Partnership

Canfor has an indirect 80% interest in the Pulp Business, which is a leading global supplier of pulp and paper products produced by the Northwood Pulp Mill, Intercontinental Pulp Mill and Prince George Pulp and Paper Mill. The Mills, all located in Prince George, British Columbia, produce over one million ADMT of softwood market kraft pulp and approximately 135,000 tonnes of Kraft Paper each year.

For information relating to the Partnership, see Appendix E "The Fund".

Taylor Pulp Mill

The Taylor pulp mill, which was acquired by Canfor as part of the combination with Slocan, produces both hardwood and softwood chemi-thermal mechanical pulp ("CTMP") using wood chips from northern white spruce softwood and aspen hardwood species. The mill is located near Taylor, British Columbia.

Production and Sales

The Taylor pulp mill has a daily capacity of 610 tonnes and an annual production capacity of 212,300 tonnes, assuming a continuous operation for an average of 348 operating days per annum. The following table sets forth the pulp production and sales volumes for the Taylor pulp mill for the last two financial years:

	Year Ended December 31	
	2005	2004 ⁽¹⁾
Pulp production	205,906	151,957
Pulp sales	206,987	139,788

(1) includes volume from April 1, 2004.

Pulp Marketing and Distribution

CTMP pulp is marketed in a similar manner to kraft pulp; it will be sold direct to customers through the Partnership's sales force in Europe and North America and it is sold through agents in Asia. The main distinction is Canfor has one large multi-country agency agreement with a single agent — Ekman.

All of the production of the Taylor pulp mill is loaded in rail cars — which either travel direct to the customer (in North America) or are shipped to terminals in Vancouver and Squamish, British Columbia, where the products are transferred to vessels (to be sent overseas).

Pulp Markets

Similar to kraft pulp, the CTMP market is global. However, Asia, not Europe is the largest consuming market of CTMP and is also the fastest growing. Asia is also the Taylor pulp mills' largest market with nearly 90% of all sales made to Asia in 2005. China, Korea, Indonesia and India are the top 4 markets. The largest customer accounts for nearly 25% of total annual sales and another customer exceeds 10% of total annual sales.

HOWE SOUND PULP AND PAPER LIMITED PARTNERSHIP

Canfor's interest in the Howe Sound Partnership was originally held through its interest in HSPP. In April 1988, Canfor sold its Howe Sound Pulp Division at Port Mellon, British Columbia and its Westcoast Cellulofibre Division at Vancouver, British Columbia to HSPP. HSPP was owned equally by Canfor and Oji Paper Co., Ltd. ("**Oji Paper**"), a leading Japanese producer and marketer of paper, including newsprint. NBSK pulp and newsprint are produced at Port Mellon on the British Columbia coast and wood chips are produced at the Westcoast Cellulofibre operation. In 1990, HSPP completed the modernization and expansion of the kraft pulp mill and, in 1991, completed construction of a newsprint mill adjacent to the pulp mill, together with a related thermo-mechanical pulp mill facility. A cogeneration facility was completed in 1992 to generate electrical power for the pulp and newsprint operations.

On March 10, 2001, Canfor and Oji Paper reorganized HSPP by transferring the business of HSPP into a limited partnership, Howe Sound Partnership. Howe Sound Partnership continues to be jointly owned by Canfor and Oji Paper and continues to carry on the former operations of HSPP. In 2002, the Westcoast Cellulofibre Division closed its lumber operation facility and shifted focus to its core business of providing wood chips to the pulp and newsprint mill at Port Mellon. Howe Sound Partnership operates as a separate business in which all of the financing arranged by the Partnership is without recourse to either Canfor or Oji Paper. Until March 2006, under agreements which Howe Sound Partnership had with Canfor and Oji Paper, Canfor obtained and supplied fibre for Howe Sound Partnership's mills at market prices. These agreements have been terminated on the sale of Canfor's Englewood Operations. See "Recent Developments". However, in connection with the transfer of the Englewood Operations to WFP, Coastal Fibre LP has entered into a long term fibre supply agreement with WFP which will be used to supply fibre to Howe Sound Partnership. Canfor has and will continue to market Howe Sound Partnership's pulp on a commission basis and provide certain management services for a fee related to cost. Oji Paper provides Howe Sound Partnership with technical services, particularly in relation to the newsprint mill, and is reimbursed for the costs and expenses incurred in providing the services. In 2005, Howe Sound's primary market focus shifted from Japan to North America to take advantage of higher prices available from specific customers requiring a superior grade of newsprint.

Throughout 2005, Howe Sound Partnership's operations were in substantial compliance with applicable environmental requirements, except for incidents that have not had, nor are they expected to have, a material effect on Howe Sound Partnership or its operations.

The following table sets forth the daily and annual production capacities of Howe Sound Partnership's market pulp and newsprint operations as at January 3, 2006:

	<u>Daily Capacity</u>	<u>Annual Capacity⁽¹⁾</u>
	(tonnes)	
Pulp	1,104	392,000
Newsprint	619	219,000

(1) Assuming continuous operation for an average of 355 operating days per annum for pulp and 354 days for newsprint.

The following table sets forth Howe Sound Partnership's pulp and newsprint production and sales for the last two financial years:

	Year Ended December 31	
	2005	2004
	(tonnes)	
Pulp production	372,197	350,867
Pulp sales	372,922	357,876
Newsprint production	206,462	203,926
Newsprint sales	204,901	201,877

As part of the reorganization in 2001, HSPP was amalgamated with CFP, Canfor's principal operating subsidiary, and, with ongoing operations of Howe Sound Partnership, approximately \$643 million of tax losses of HSPP at that time became available to reduce the future taxable income of the amalgamated company. Also, as part of the reorganization, CFP made a payment of \$60.2 million to Howe Sound Partnership, which was applied to reduce the long-term debt of HSPP assumed by Howe Sound Partnership. As a result of utilizing these tax losses, CFP made further payments to Howe Sound Partnership of \$5.0 million in 2002 and \$7.0 million in 2004. A final payment was made to Howe Sound Partnership on January 2, 2005 of \$50.0 million.

As a result of the 2001 reorganization, CFP recorded a future income tax asset of \$193.2 million and a deferred credit of \$119.4 million, based upon the tax rates prevailing at that time. Since then, the balances have been adjusted to reflect tax rate changes announced by the Government of British Columbia. The deferred credit is being recognized into income on a systematic basis.

Canfor wrote off its investment in the joint venture in 1998 and no longer reflects its share of the joint venture's results in its earnings. Canfor's method of accounting for its interest in Howe Sound Partnership did not change as a result of the 2001 reorganization.

COMPETITIVE POSITION

Each of the markets in which Canfor sells lumber, panel and pulp is highly competitive with many major firms in each market. Canfor's competitive position is influenced by the availability, quality and cost of its raw materials, energy and labour, and its plant efficiencies and productivity in relation to its competitors. Canfor, like the rest of the Canadian forest products industry, competes in an international market and is therefore subject to the impact of currency fluctuations and global business conditions. Many of Canfor's lumber and panel products also compete with substitutes for wooden building materials of various kinds. See also the "Markets" section of each of the Lumber, Panels, and Pulp segments above.

**SELECTED PRO FORMA FINANCIAL AND
OPERATIONAL INFORMATION FOR CANFOR AFTER THE SPINOUT**

The following tables contain selected historical financial and operating information for Canfor. Financial information for each of the years ended December 31, 2005, 2004 and 2003 has been derived from the audited financial statements of Canfor incorporated by reference into this Information Circular. The pro forma financial information for 2005 set out in the following tables has been prepared based upon the assumptions set out in the pro forma financial statements included in Appendix D.

Selected Pro Forma and Historical Financial Information

	Pro Forma 2005 (unaudited)	Year Ended December 31,		
		2005	2004	2003
		(in millions of dollars)		
Income Statement				
Sales	3,787.8	3,787.8	3,925.0	2,355.0
Costs and expenses	<u>3,645.4</u>	<u>3,645.4</u>	<u>3,430.5</u>	<u>2,343.3</u>
Operating Income (loss) from continuing operations	142.4	142.4	494.5	11.7
Foreign exchange gain on long term debt	10.0	10.0	48.7	110.9
Interest expense	(42.2)	(42.2)	(58.8)	(60.2)
Other income (expense)	(1.8)	(1.8)	25.2	82.8
Income tax expense	(12.4)	(12.4)	(94.1)	2.0
Minority interest	0.6	—	—	—
Net income	<u>96.6</u>	<u>96.0</u>	<u>415.5</u>	<u>147.2</u>

Selected Historical Operating Data

Production Statistics	Year Ended December 31,		
	2005	2004	2003
		(unaudited)	
Lumber — MMfbm	4,624.4	4,234.9	2,632.6
Plywood — MMsf ³ / ₈ " basis	433.3	356.6	175.6
Oriented strand board — MMsf ³ / ₈ " basis	478.8	384.8	—
Pulp — 000 ADMT	1,189.1	1,142.3	992.1
Kraft Paper — 000 mt	127.4	134.1	128.5

RELATIONSHIP BETWEEN CANFOR AND THE PARTNERSHIP AFTER THE SPINOUT

Although Canfor will initially own 80% of the outstanding LP Units, Canfor and the Partnership will be separate entities. However, under GAAP, Canfor will consolidate the Partnership's financial results and show a 20% minority interest.

Following completion of the Spinout, the Partnership will have approximately 1,250 full-time dedicated employees, substantially all of whom will be transferred from Canfor. The Partnership will also have access to certain of Canfor's remaining employees under the Partnership Services Agreement pursuant to which Canfor will assist the Partnership with the operation of its properties. The Partnership Services Agreement will be terminable, in whole or in part, at the election of the General Partner or Canfor upon 12 months written notice. It is anticipated that the Partnership will ultimately operate completely independently from Canfor with its own full complement of management and employees. For additional information regarding the composition of the directors and officers for the Partnership and management of the Partnership following completion of the Spinout, see Appendix E "Management, Trustees and Directors" and "The Spinout — Transfer of the Pulp Business and Related Agreements — Partnership Services Agreement".

DIRECTORS AND MANAGEMENT

The Spinout is not expected to result in any change in Canfor's directors, but will result in changes to Canfor's senior management. Paul Richards, Canfor's Vice-President of Pulp and Paper will become the President and CEO of the General Partner and Joe Nemeth, Canfor's Vice-President of Pulp and Paper Sales and Marketing will become the Vice-President of Pulp and Paper Sales and Marketing of the General Partner.

DESCRIPTION OF AUTHORIZED SHARE STRUCTURE

The New Common Shares will be created pursuant to the Arrangement and, at the end of the series of steps comprising the Arrangement, the Canfor Shares will be removed from the authorized share structure of Canfor. Following completion of the Spinout, Canfor's authorized share structure will consist of 1,000,000,000 New Common Shares without par value and 10,000,000 Preferred shares with a par value of \$25.00 each. Based on the number of Canfor Shares outstanding on April 27, 2006, 142,540,030 New Common Shares will be issued and outstanding following completion of the Spinout.

Holder of New Common Shares are entitled to vote at all meetings of shareholders of Canfor, except meetings at which only the holders of Preferred shares would be entitled to vote. Holders of the New Common Shares are entitled to receive dividends, as and when declared on the New Common Shares and, subject to any preference in favour of holders of any Preferred shares, to share equally in Canfor's remaining assets upon liquidation, winding-up or dissolution of Canfor.

Holder of Preferred shares are not generally entitled as such to receive notice of, or to attend or vote at, general meetings of shareholders of Canfor. Preferred shareholders are entitled to preference over the New Common Shares with respect to the payment of dividends and upon any distribution of assets in the event of liquidation, winding-up or dissolution of Canfor.

CANFOR CORPORATION

PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

December 31, 2005

(in millions of Canadian dollars)

Compilation Report on Pro Forma Financial Statements

To the Board of Directors of Canfor Corporation

We have read the accompanying unaudited pro forma consolidated balance sheet of Canfor Corporation (the “Company”) as at December 31, 2005 and the unaudited pro forma consolidated statement of operations for the year ended December 31, 2005 and have performed the following procedures:

1. Compared the figures in the columns captioned “Canfor Corporation” to the audited financial statements of the Company for the year ended December 31, 2005, and found them to be in agreement.
2. Made enquiries of certain officials of the Company who have responsibility for financial and accounting matters about:
 - a) the basis for determination of the pro forma adjustments; and
 - b) whether the pro forma financial statements comply as to form in all material respects with the requirements of the applicable securities regulatory authorities in Canada.

The officials:

- c) described to us the basis for determination of the pro forma adjustments; and
 - d) stated that the pro forma statements comply as to form in all material respects with the requirements of the applicable securities regulatory authorities in Canada.
3. Read the notes to the pro forma statements, and found them to be consistent with the basis described to us for determination of the pro forma adjustments.
4. Recalculated the application of the pro forma adjustments to the amounts in the columns captioned “Canfor Corporation” as at December 31, 2005 and for the year ended December 31, 2005, and found the amounts in the column captioned “Pro forma Canfor Corporation” to be arithmetically correct.

A pro forma financial statement is based on management assumptions and adjustments which are inherently subjective. The foregoing procedures are substantially less than either an audit or a review, the objective of which is the expression of assurance with respect to management’s assumptions, the pro form adjustments, and the application of the adjustments to the historical financial information. Accordingly, we express no such assurance. The foregoing procedures would not necessarily reveal matters of significance to the pro forma financial statements, and we therefore make no representation about the sufficiency of the procedures for the purposes of a reader of such statements.

(signed) PRICEWATERHOUSECOOPERS LLP
Chartered Accountants

Vancouver, British Columbia
April 28, 2006

CANFOR CORPORATION

PRO FORMA CONSOLIDATED BALANCE SHEET

(Unaudited)

As at December 31, 2005

(in millions of Canadian dollars)

	<u>Canfor Corporation \$</u>	<u>Pro Forma Adjustment \$ (note 2)</u>	<u>Pro Forma Canfor Corporation \$</u>
ASSETS			
Current assets			
Cash and temporary investments	306.3		306.3
Accounts receivable			
Trade	205.4		205.4
Other	79.8		79.8
Inventories	600.9		600.9
Future income taxes	23.9		23.9
Current assets of discontinued operations	39.8		39.8
Prepaid expenses	36.2		36.2
	<u>1,292.3</u>		<u>1,292.3</u>
Long-term investments and other	186.5		186.5
Property, plant, equipment and timber	2,211.1		2,211.1
Deferred charges	96.9		96.9
Non-current assets of discontinued operations	43.7		43.7
	<u>3,830.5</u>		<u>3,830.5</u>
LIABILITIES AND BUSINESS UNIT EQUITY			
Current liabilities			
Operating bank loans	3.4		3.4
Accounts payable and accrued liabilities	380.3		380.3
Current portion of long-term debt	95.7		95.7
Current portion of deferred reforestation	43.3		43.3
Income taxes payable	4.1		4.1
Current liabilities of discontinued operations	9.3		9.3
	<u>536.1</u>		<u>536.1</u>
Long-term debt	544.5		544.5
Other accruals and provisions	220.5		220.5
Long-term liabilities of discontinued operations	0.4		0.4
Future income taxes — net	468.3		468.3
Deferred credit	14.1		14.1
Minority interest in Canfor Pulp Limited Partnership	—	121.2	<u>121.2</u>
	1,783.9		1,907.4
Share capital	1,268.7	(155.0)	1,113.7
Contributed surplus	—	33.8	33.8
Retained earnings	779.5		779.5
Foreign exchange translation adjustment	(1.6)		(1.6)
	<u>3,830.5</u>		<u>3,830.5</u>

Approved by the Board of Directors

(signed) R.L. Cliff
Director

(signed) J.A. Shepherd
Director

CANFOR CORPORATION

PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS

(Unaudited)

For the year ended December 31, 2005

(in millions of Canadian dollars)

	<u>Canfor Corporation \$</u>	<u>Pro Forma Adjustments \$ (note 2)</u>	<u>Pro Forma Canfor Corporation \$</u>
Sales	3,787.8		3,787.8
Cost of sales			
Manufacturing and product costs	2,598.4		2,598.4
Freight and distribution costs	593.3		593.3
Countervailing and anti-dumping duties	224.8		224.8
Amortization	151.6		151.6
Selling and administration	72.0		72.0
	<u>3,640.1</u>		<u>3,640.1</u>
Restructuring, mill closure, severance	5.3		5.3
	<u>142.4</u>		<u>142.4</u>
Operating income from continuing operations	142.4		142.4
Interest expense	(42.2)		(42.2)
Foreign exchange on long-term debt	10.0		10.0
Other income (expense)	12.8		12.8
Unusual expense	(8.8)		(8.8)
	<u>114.2</u>		<u>114.2</u>
Net income from continuing operations before income taxes and minority interest	114.2		114.2
Provision for income taxes	(12.4)		(12.4)
Minority interest in Canfor Pulp Limited Partnership	—	0.6	0.6
	<u>101.8</u>		<u>102.4</u>
Net income (loss) from continuing operations	101.8		102.4
Loss from discontinued operations	(5.8)		(5.8)
	<u>96.0</u>		<u>96.6</u>
Net earnings (loss) for the year	<u>96.0</u>		<u>96.6</u>

CANFOR CORPORATION

NOTES TO PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

December 31, 2005

(in millions of Canadian dollars)

1 Basis of presentation

The unaudited pro forma consolidated financial statements of Canfor Corporation (“Canfor” or the “Company”) have been prepared in accordance with Canadian generally accepted accounting principles, to give effect to the completion of the following transactions:

- The Company through its wholly owned subsidiary Canadian Forest Products Ltd. (“CFP”) will transfer two northern bleached softwood kraft pulp mills (“NBSK”) and a NBSK pulp and paper mill located in Prince George, British Columbia (the “Pulp Business”) to a wholly owned limited partnership, Canfor Pulp Limited Partnership (the “Partnership”) in exchange for a \$125 million promissory note, 14.253 million Class A Limited Partnership Units and 57.012 million Class B Limited Partnership Units.
- CFP will create a public income fund, Canfor Pulp Income Fund (the “Fund”), to hold an indirect 20% interest in the Partnership through a wholly owned trust, Canfor Pulp Trust (the “Trust”). CFP will transfer the 14.253 million Class A Limited Partnership Units to the Trust in exchange for 14.253 million Trust Notes. The Trust Notes will then be exchanged with the Fund for 14.253 million Fund Units.
- Canfor’s notice of articles will be amended to redesignate the Canfor shares as Class A Common Shares and create a new class of Common Shares (the “New Common Shares”) having the same rights and restrictions as the Canfor Shares. Canfor shareholders will receive, in exchange for each Canfor Share one New Common Share, and one-tenth of a Fund Unit, except for those Canfor shareholders who are Non-Qualified U.S. Canfor shareholders, who will receive a cash payment rather than their Fund Units.

The unaudited pro forma consolidated financial statements should be read in conjunction with the financial statements of the Company for the year ended December 31, 2005 incorporated herein by reference.

The pro forma adjustments reflecting the above-mentioned transactions are tentative and are based on available information and certain estimates and assumptions, as presented in note 2. The actual adjustments to the consolidated financial statements of the Company will depend on a number of factors, including operating results of the Pulp Business between December 31, 2005 and the actual acquisition date. However, the Company believes that the assumptions are reasonable and present the effects of the contemplated transaction, and that the pro forma adjustments are properly applied in the pro forma consolidated financial statements.

The pro forma consolidated financial statements are not intended to reflect the results of operations which would have actually resulted had the business acquisition and other pro forma adjustments been effected on the dates indicated. Further, the pro forma consolidated statements of earnings are not necessarily indicative of the results of operations that may be obtained by the Company in the future.

2 Pro forma adjustments and assumptions

The unaudited pro forma consolidated financial statements have been presented assuming that the transactions described in note 1 had been effected January 1, 2005 for the unaudited pro forma consolidated statement of operations and effective December 31, 2005 for the unaudited pro forma consolidated balance sheet.

The distribution of the Fund Units to existing Canfor shareholders has been accounted for as a return of share capital. The stated legal capital of the Fund Units is estimated to be \$155.0 million. The Company has recorded minority interest for the 20% of the Pulp Business held by the Fund. As the distribution does not create a change in ownership interests, the transfer of the Pulp Business to the Partnership has been accounted for at carrying value.

The minority interest has been calculated as follows:

	\$
Pro forma Canfor Pulp Limited Partnership	
Net earnings for the year ended December 31, 2005	(3.0)
Minority interest %	<u>20%</u>
Minority interest in Canfor Pulp Income Fund	<u>(0.6)</u>
Pro forma Canfor Pulp Limited Partnership	
Net equity at December 31, 2005	<u>606.1</u>
Minority interest %	<u>20%</u>
Minority interest in Canfor Pulp Income Fund	<u>121.2</u>

APPENDIX E — THE FUND

TABLE OF CONTENTS

	<u>Page</u>
The Fund, the Trust and the Partnership	E-1
The Pulp and Paper Industry	E-1
The Pulp Business	E-10
Selected Historical Financial and Operational Information	E-23
Consolidated Capitalization of the Fund	E-25
Consolidated Capitalization of the Partnership	E-25
New Credit Facilities	E-25
Management’s Discussion and Analysis of Financial Condition and Results of Operations	E-26
Management, Trustees and Directors	E-38
Description of the Fund and Fund Units	E-44
Description of the Trust	E-55
Description of the Partnership	E-59
Description of the General Partner	E-61
Principal Unitholder	E-62
Risk Factors	E-62
Auditors, Transfer Agent and Registrar	E-62
Interest of Management and Others in Material Transactions	E-62
Material Contracts	E-62
Index to Financial Statements	E-64

Notice to Reader

The disclosure contained in this Appendix has been prepared assuming the Spinout has been completed and that the Partnership owns the Pulp Business.

THE FUND, THE TRUST AND THE PARTNERSHIP

Structure

The Fund is an unincorporated open-ended trust established under the laws of the Province of Ontario pursuant to the Fund Declaration. The principal and head office of the Fund is located at 100 – 1700 West 75th Avenue, Vancouver, British Columbia. The Fund has been created to indirectly acquire an interest in the Partnership through its holding of Trust Units and Trust Notes. See “Description of the Fund and Fund Units”.

The Trust is an unincorporated open-ended trust established under the laws of the Province of Ontario pursuant to the Trust Declaration. The principal and head office of the Trust is located at 100 – 1700 West 75th Avenue, Vancouver, British Columbia. Following the Effective Date, all of the Trust Units and the Trust Notes will be owned by the Fund. The Trust has been created to directly acquire 20% of the outstanding LP Units. See “Description of the Trust”.

The Partnership is a limited partnership formed under the laws of the Province of Manitoba. The LP Units will be held as to approximately 20% by the Trust (which will hold all of the outstanding Class A LP Units) and approximately 80% by Canfor (which will hold all of the outstanding Class B Exchangeable LP Units). The General Partner, a corporation incorporated under the laws of Canada, will hold a 0.001% GP Interest in the Partnership. Following the Effective Date, the Trust will hold 20% of the outstanding common shares of the General Partner and Canfor will hold 80% of the outstanding common shares of the General Partner. After the Effective Date the Partnership will own and operate the Pulp Business. See “Description of the Partnership”.

Business

The Partnership is a leading global supplier of pulp and paper products with operations based in the central interior of British Columbia. The Partnership’s strategy is to maximize cash flows and enhance the value of its assets by: (i) preserving its low-cost operating position, (ii) maintaining the premium quality of its products and (iii) opportunistically acquiring high quality assets.

The Partnership owns and operates three mills with annual capacity to produce over one million ADMT of northern softwood market kraft pulp, 90% of which is bleached to become NBSK Pulp, for sale to the market and approximately 135,000 tonnes of Kraft Paper. The Mills are among the lowest cost producers in Canada with a first quartile ranking based on average cost of production of NBSK Pulp in the most recent PricewaterhouseCoopers LLP Market Pulp study (2004) of competitive costs of Canadian pulp mills.

THE PULP AND PAPER INDUSTRY

The market and industry data set forth in this section are based on industry publications, market research and publicly available information. Sources for this data are Pulp & Paper Products Council (“PPPC”), the Pulp and Paper Research Institute of Canada (“PAPRICAN”), Jaakko Pöyry Group Oy (“Jaakko Poyry”) and Resource Information Systems Inc. (“RISI”). While management of the Partnership (“Management”) believes this information to be reliable, it has not independently verified it.

Pulp Overview

Pulp is used in the production of paper, paperboard, tissues and paper related products. Pulp is generally classified according to the process used in its production, the degree to which it is bleached and type of raw material, or fibre, used.

Generally, pulp is produced by using either a mechanical or chemical process. Mechanical pulp is produced by using mechanical force to separate the individual wood fibres. Chemical pulps are produced by dissolving the lignin, the component of wood which binds individual fibres, through a chemical reaction. The primary advantages of chemical pulps — which the Partnership produces — is higher strength as the chemical pulping process retains fibre length and flexibility better than mechanical pulping.

The majority of chemical pulps are produced by cooking wood chips with caustic soda and a sodium sulphide mixture, producing “kraft” pulp. In turn, most kraft pulps are then bleached to increase the brightness or whiteness of the pulp. There are two main types of bleached kraft pulp: softwood kraft which is made from tree species that have needles (“**Bleached Softwood Kraft**”) and hardwood kraft which is made from tree species that have leaves (“**Bleached Hardwood Kraft**”).

Bleached Softwood Kraft has longer, more flexible fibres than Bleached Hardwood Kraft and is primarily purchased for its ability to add strength to paper. Bleached Hardwood Kraft contains shorter fibres, and is primarily purchased to improve the printed appearance of paper end products. Most paper end-uses of kraft pulp use a mix of softwood and hardwood grades to achieve both desired strength requirements and printed appearance of the end product. Currently, market kraft pulp consumption is roughly evenly split between softwood and hardwood grades.

In the past five years, Bleached Hardwood Kraft capacity has grown faster than Bleached Softwood Kraft for a variety of reasons. The relative production cost advantage recently enjoyed by Bleached Hardwood Kraft mills when compared to Bleached Softwood kraft mills stems from lower fibre costs, higher wood yields and, on average, greater economies of scale. Recently, the substitution of Bleached Hardwood Kraft for Bleached Softwood Kraft has declined due to a number of factors which are increasing the need for higher strength Bleached Softwood Kraft pulps:

- significant increases in the size and speed of paper machines which put more stress on the papers being formed by those machines; and
- consolidation and rationalization in the paper business which has resulted in paper companies having fewer production facilities that need to be run with greater efficiency.

These two counteracting forces — the desire to use lower cost pulps versus the need for increased strength — are leading to the development of distinct market segments, which is reducing the direct competition between Bleached Hardwood Kraft and Bleached Softwood Kraft. In commodity papers, such as office or photocopy paper, where low cost is key or in high bulk applications, such as towels, Bleached Hardwood Kraft is dominant. In segments where end products are lightweight or specialized, such as direct mail, magazine papers or premium tissues, or where end products must be strong, such as is the case with abrasive papers, Bleached Softwood Kraft forms a significant proportion of the fibre used in its production.

The Bleached Softwood Kraft market is further segmented into Northern Bleached Softwood Kraft (“**NBSK**”) and Southern Bleached Softwood Kraft (“**SBSK**”). NBSK Pulp is only made from trees grown in the Northern Hemisphere — predominantly in Canada, Northern Europe and Russia. It commands the highest price of any pulp grade as it has the highest reinforcing strength — which is the ability to reinforce paper so it does not break when printed or converted.

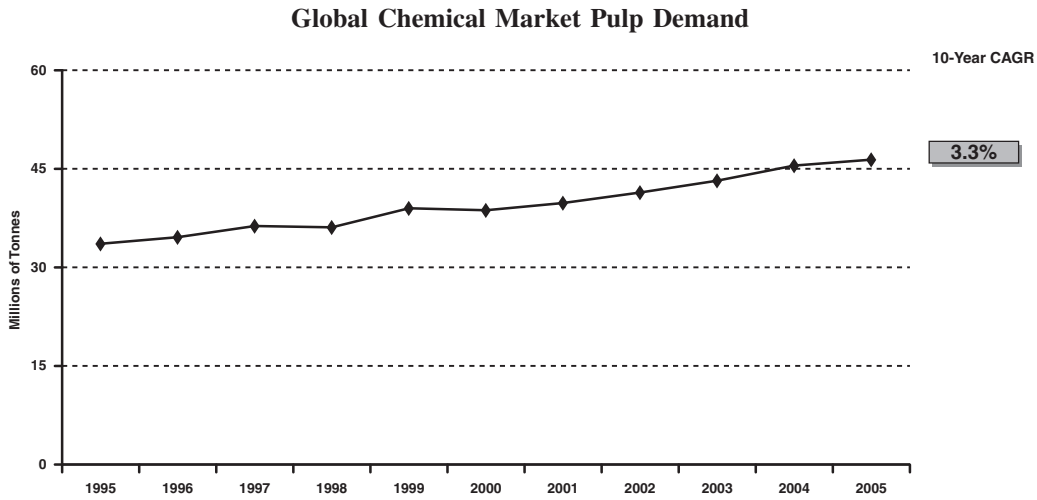
Within the NBSK Pulp market segment, there is a significant range of pulp qualities in terms of reinforcing strength. All of the NBSK Pulp produced by the Partnership is in the upper end of the quality spectrum in terms of reinforcing strength. As a result, the Partnership’s reinforcing NBSK commands a premium in segments of the market which demand high reinforcing strength. This premium is supported by these types of NBSK Pulp’s superior reinforcing potential and by limited supply. Supply is limited because the highest quality of premium reinforcing NBSK can only be made from northern spruce or pine fibres, which are only found in Canada, and in some areas in Scandinavia and Russia. In the last 16 months, facilities with annual production of 1.6 million ADMT of NBSK (representing 11% of global NBSK capacity) have either been closed or scheduled for imminent closure. The future supply of premium reinforcing NBSK is likely to be further reduced as there are no planned expansions of existing facilities or new greenfield projects and there is a high likelihood of more closures of existing facilities, as many of the remaining premium reinforcing NBSK production facilities are older and higher cost facilities.

Pulp Markets

Overview

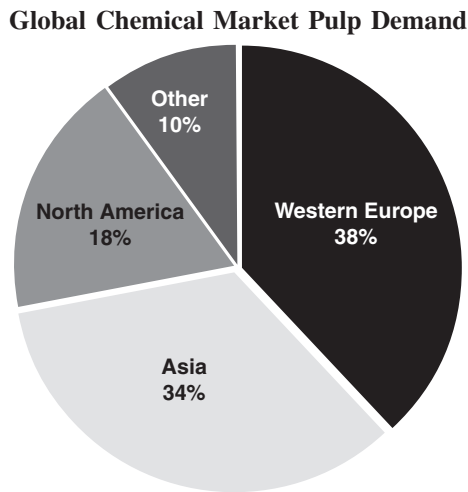
In 2005, approximately 130 million ADMTs of chemical paper-grade pulp were converted into printing and writing papers, tissues and other grades of paper and paperboard around the world. Approximately 65% of this pulp was produced for internal purposes by integrated paper and paperboard manufacturers, and approximately 35% was produced for sale on the open market. Unless otherwise specified, all references herein to pulp demand, consumption or markets do not include pulp produced for internal use by integrated pulp and paper producers.

In 2005, total worldwide consumption of chemical market pulp was approximately 46.4 million ADMTs. Although demand is cyclical, global demand for pulp has grown at an average rate of approximately 3.3% annually from 1995 to 2005. The following chart illustrates the global pulp demand for pulp during the specified periods:



Source: Pulp & Paper Products Council

In 2005, Western Europe, Asia and North America collectively accounted for approximately 90% of global chemical market pulp demand, as illustrated below:



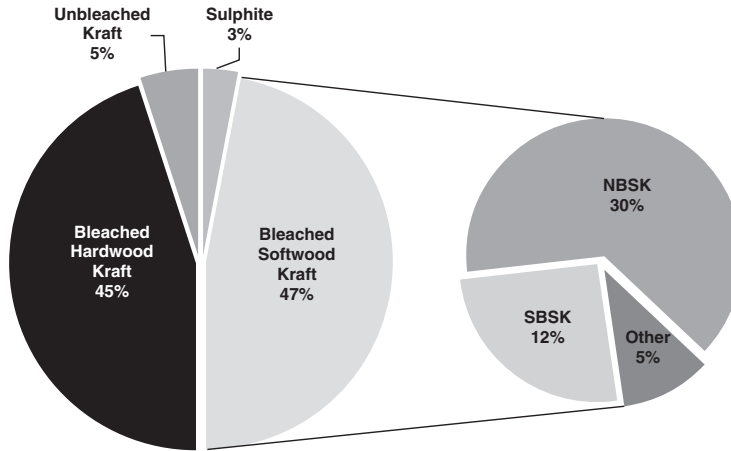
Source: Pulp & Paper Products Council

Western Europe is the largest consumer of pulp and at approximately 18 million ADMT accounts for 38% of current global consumption. By comparison, Asia consumes approximately 16 million ADMT accounting for 34% of current global consumption while North America accounts for approximately 8 million ADMT or 18% of global consumption.

NBSK Pulp Markets

As shown in the chart below, Bleached Softwood Kraft and Bleached Hardwood Kraft are the two predominant types of pulp, together accounting for over 90% of global chemical market pulp consumption. NBSK has always been the single largest market segment and accounted for 14 million ADMT, or 30% of global chemical market pulp consumption, in 2005. As a result, NBSK is referred to as the benchmark grade for pulp when discussing price or relative market conditions.

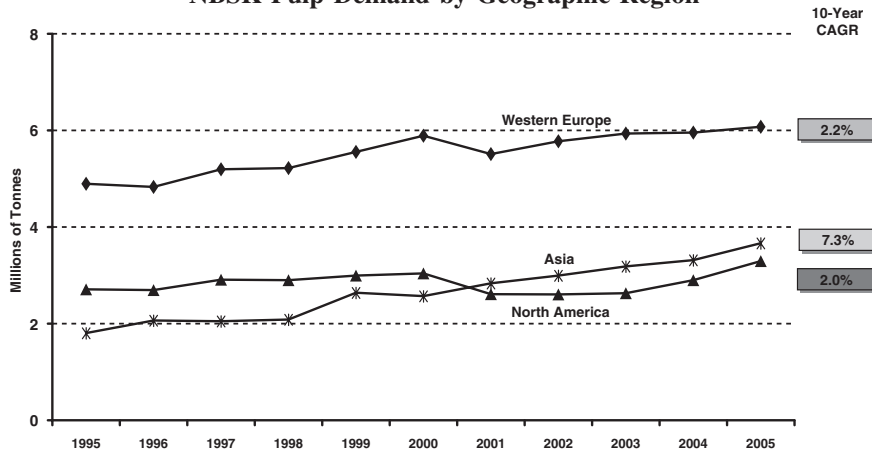
Global Chemical Market Pulp Shipments



Source: Pulp & Paper Products Council

The geographic distribution of sales of NBSK Pulp is similar to sales of total pulp generally. Western Europe is the largest market with 6.1 million ADMT or 44% of global NBSK consumption in 2005. Western Europe is a mature market and has experienced cumulative average annual growth of only 2.2% in the last 10 years. Asia, the second largest NBSK market at 3.7 million ADMT or 27% market share of global NBSK Pulp consumption, has experienced the most rapid growth with a cumulative average annual rate of 7.3%, with China accounting for the majority of this growth. North America is the third largest NBSK market at 3.3 million ADMT or 24% market share and has experienced an annual average growth rate of 2.0% in the past ten years. The following chart illustrates the NBSK Pulp demand in these regions over the last 10 years.

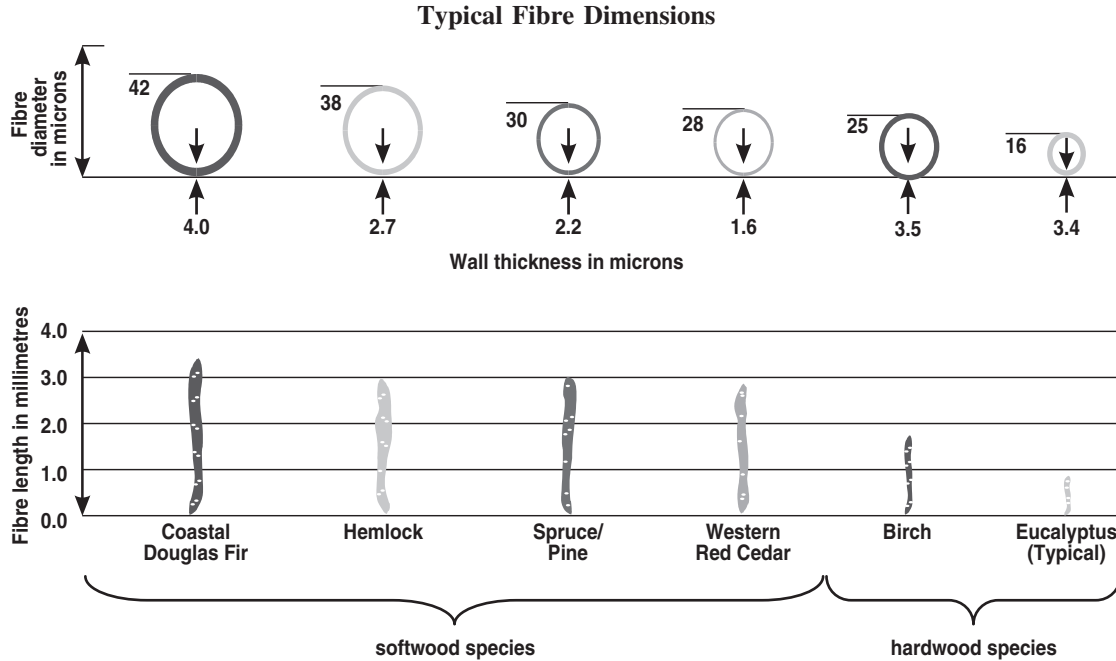
NBSK Pulp Demand by Geographic Region



Source: Pulp & Paper Products Council

Premium Reinforcing NBSK

NBSK Pulps differ widely in their strength or reinforcing potential due to differences in the physical characteristics of the fibre used in the production process, such as fibre length, diameter and cell wall thickness. Longer, more slender and thin walled fibres provide the highest reinforcing potential. The figure below visually demonstrates how much individual tree species differ in physical characteristics.

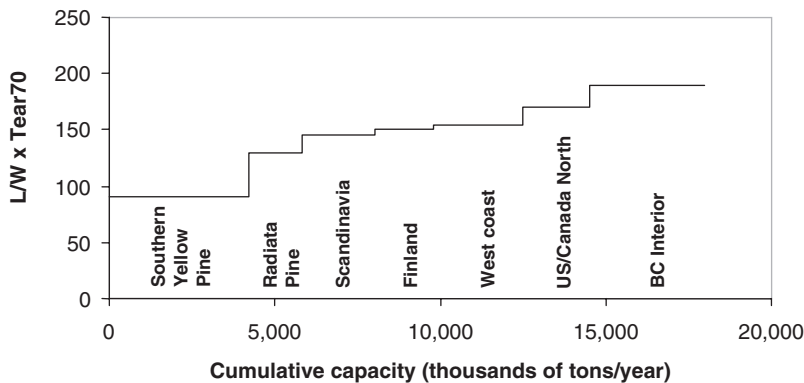


“Weight weighted lengths measured by Kajaani FS200”

The best fibre to produce a premium reinforcing pulp is derived from northern spruce and pine or western red cedar (shown in the middle of the chart) as they have relatively long and slender fibres, but with the thinnest cell walls. The fibres on the left of the chart are long, but are coarse with thick cell walls, that do not collapse easily and do not bind together as well as more slender pulps. The hardwood species shown on the right of the chart are very short and thick-walled, and therefore have very little strength potential.

The correlation between fibre characteristics and strength potential has been verified through extensive study and sample testing. Jaakko Poyry completed a study, comparing the reinforcing potential of different Bleached Softwood Kraft Pulps for producing light weight coated paper, principally used for magazines, and verified that NBSK ranked higher than SBSK and that the NBSK produced in the BC Interior was the strongest.

Reinforcement Ranking for Light Weight Coated Paper

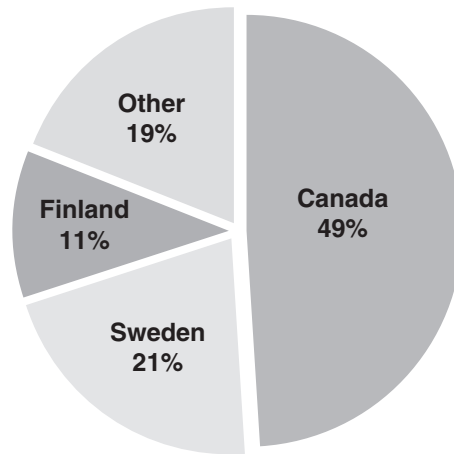


Source: Jaakko Poyry

NBSK Pulp Production

Canada ranks as the largest producer of NBSK Pulp in the world, with a production capacity of approximately 7.3 million tonnes in 2005, or approximately 49% of worldwide production capacity. Sweden ranks as the second largest producer of NBSK Pulp with a production capacity of approximately 3.1 million ADMT or 21% of global production capacity in 2005.

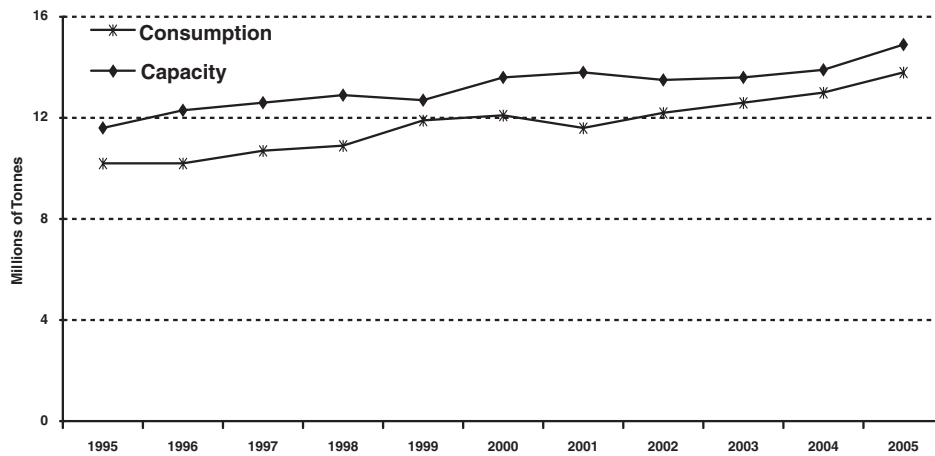
Global NBSK Pulp Production Capacity by Geographic Region



Source: Pulp & Paper Products Council

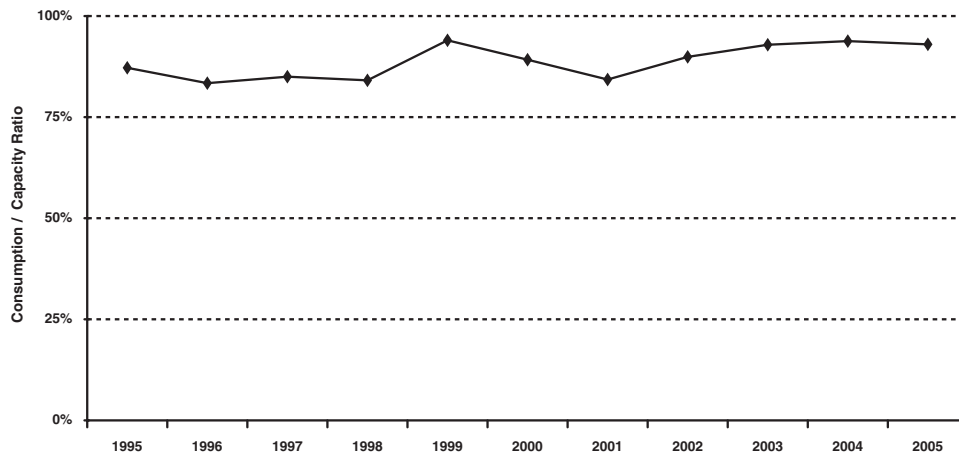
The charts below compare global NBSK Pulp production capacity and consumption and present the percentage ratio between global NBSK Market Pulp production capacity and consumption, in each case for the specified periods.

Global NBSK Pulp Production Capacity and Consumption



Source: Pulp & Paper Products Council

Global NBSK Pulp Consumption to Capacity Ratio



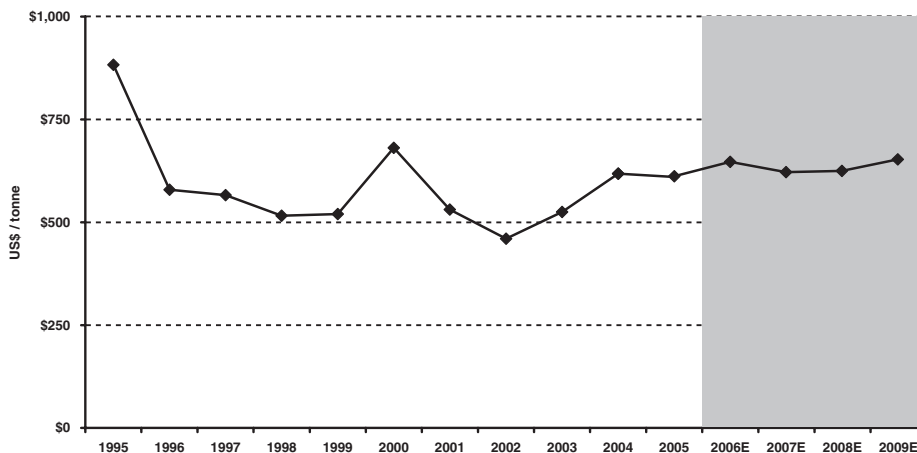
Source: Pulp & Paper Products Council

The consumption/capacity ratio is a measure of market tightness. As this ratio increases and the market tightens, prices generally begin to rise, buyers build inventories, and the increased shipments enable pulp producers to run at higher consumption to capacity ratio and reduce mill inventories. Between 1995 and 1998, the market was weak, the consumption/capacity ratio averaged 85%, and prices fell to all time lows resulting in a number of NBSK mills permanently shutting down, such as Gold River and Skeena, or going into receivership, such as Celgar, Crestbrook and Howe Sound Pulp and Paper. In 1999 and 2000 demand strengthened which, taken together with recent shut-downs, created a tight market. During that period NBSK mills experienced rising prices and a consumption/capacity ratio that peaked at 95%. In late 2000 demand fell off dramatically, the consumption/capacity ratio fell back to 85% and pricing returned to bottom of the market levels. Since 2003, demand growth has been strong and mill shutdowns have off-set capacity growth. The result has been steadily improving capacity utilization rates. The NBSK Pulp consumption/capacity ratio was 93% in 2005.

NBSK Pulp Pricing

Global economic conditions, changes in production capacity, inventory levels and currency exchange rates are the primary factors affecting NBSK Pulp list prices. As Northern Europe is the world’s largest market and NBSK is the largest grade, European NBSK market pricing is the benchmark used in the industry. The following chart illustrates the average annual Northern Europe list prices for NBSK Pulp for the specified periods:

Average Annual Northern Europe NBSK Pulp List Prices in US\$

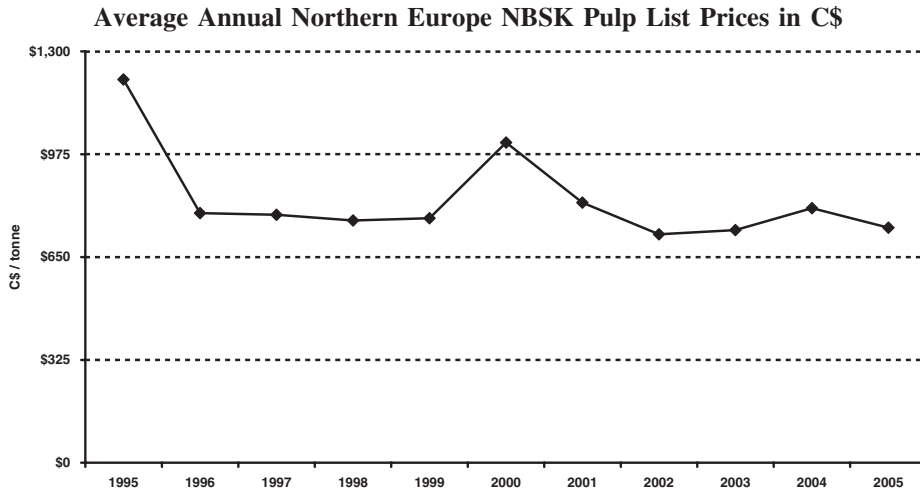


Source: Historical prices from Pulp & Paper Products Council, projected prices are an average of 5 independent industry forecasts

The average annual Northern Europe list prices for NBSK Pulp between 1995 and 2005 ranged from a low of US\$460 per ADMT in 2002 to a high of US\$883 per ADMT in 1995. A cyclical peak of US\$710 per ADMT was

achieved in 1999/2000. Following a decline in demand in 2001, list prices for NBSK Pulp fell to approximately US\$460 per ADMT in 2002. Demand growth combined with a weak U.S. dollar has driven the steady growth in market pricing since 2003 and in 2005 prices averaged US\$610. As of April, 2006, NBSK Pulp is selling for US\$650 — US\$660 per ADMT for delivery to Northern Europe. An average of 5 independent industry forecasts suggests Northern European NBSK prices will average US\$645 in 2006 and average US\$635 in the period between 2006 and 2009.

In addition to general supply and demand factors, currency exchange rates have had a significant impact on pulp pricing. Since nearly all of NBSK Pulp is priced in US dollars, the exchange rates of the top producing countries relative to the US dollar has a major bearing on relative competitiveness. While the chart above shows that pricing in US dollar terms has increased by nearly US\$200 between 2003 and 2005, the chart below shows that in Canadian dollar terms prices have not materially increased. Pricing during the period from 2003 to 2005 is at market bottom levels when compared to the past 10 years.



Source: Pulp & Paper Products Council

Paper Overview

Kraft Paper is typically used in the production of paper bags. End uses include single ply grocery bags, multi-ply bags for pet food or cement as well as specialty end uses such as tape and laminate base stock. Similar to pulp, both bleached and unbleached products are produced. However, unlike pulp, the majority of Kraft Paper used to produce bags (“**Sack Kraft**”) is unbleached.

Within the market for Sack Kraft, there is a high performance segment that is distinct — based upon its strength. High performance papers can only be produced with strong northern fibres and post refining — a stage in the paper manufacturing process that refines or increases the bonding strength of the fibres.

Kraft Paper Markets

The size of the global paper bag market is approximately 5.0 million tonnes and demand is split primarily between Europe (42%) and the United States (36%). Demand for the product is driven by packaged food consumption and the overall economy. In North America, which is the Partnership’s main target market, 50% of all multi-wall bags are used in the agricultural and food industry while 17% are used by pet food manufacturers. The state of the economy has a significant impact on demand since 20% of all bags in North America are used in the building materials sector while 30% are used for chemicals, minerals and all other categories. However, for the past 10 years demand has been relatively constant, averaging 5 million tonnes per year.

Fully Bleached, High Performance Market Segment

Although overall market demand for Kraft Paper has been flat, there are two significant market trends occurring: a rapid increase in the demand for both fully bleached and high performance products. The trend to fully bleached Kraft Paper products is driven by the growth of the big box store and internet sales — where the package is no longer manufactured simply for protection — but to advertise the contents. The trend to high performance Kraft Paper products is being driven by simple economics. If a customer can achieve the same performance with two plies as was

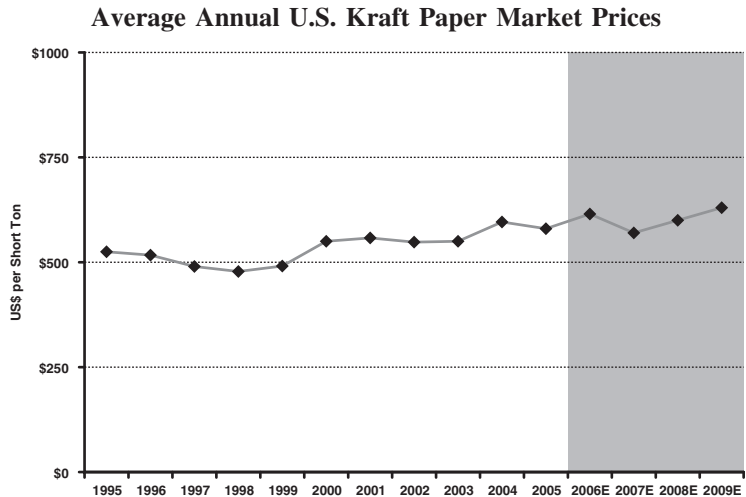
previously achieved with three, it can substantially reduce its costs. At present, the majority of European Sack Kraft consumption is fully bleached, high performance papers, whereas in the United States only a small, but rapidly growing, segment of the market uses these grades.

Kraft Paper Production

In 2005, approximately 5.0 million tonnes of Kraft Paper were converted into single ply bags and multi-wall paper bags, as well as other specialty paper product end uses around the world. A significant portion of this was produced for internal use by integrated manufacturers (such as Mondi).

Kraft Paper Pricing

Unlike pulp, pricing of Kraft Paper is relatively stable. In the past 10 years, mill nets for Kraft Paper have remained in a relatively narrow band — with the majority of the fluctuation being currency variations as paper is sold in US\$. The following chart illustrates the average annual U.S. Kraft Paper prices (for 50 pound unbleached flat multi-wall) since 1995:

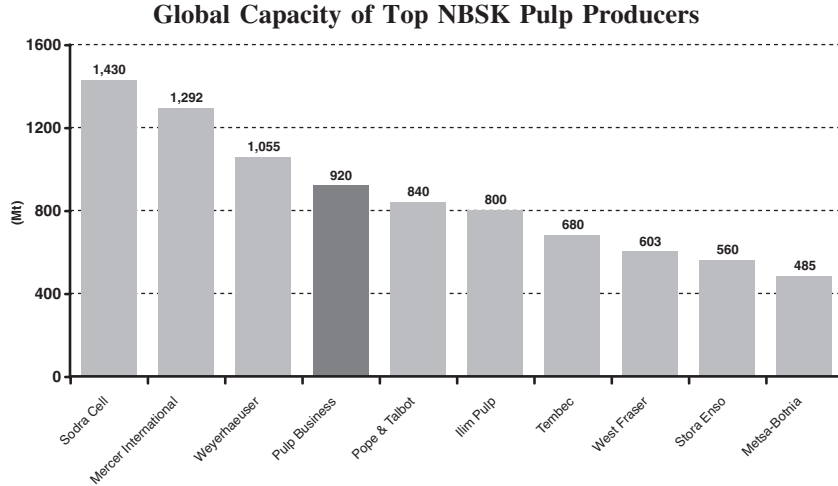


Source: RISI

THE PULP BUSINESS

Market Position

The Pulp Business is the fourth largest producer in the world of NBSK Pulp for sale on the open market, based on global production capacity of existing facilities, as illustrated in the following chart:



Source: PPPC and Management estimates

The Mills

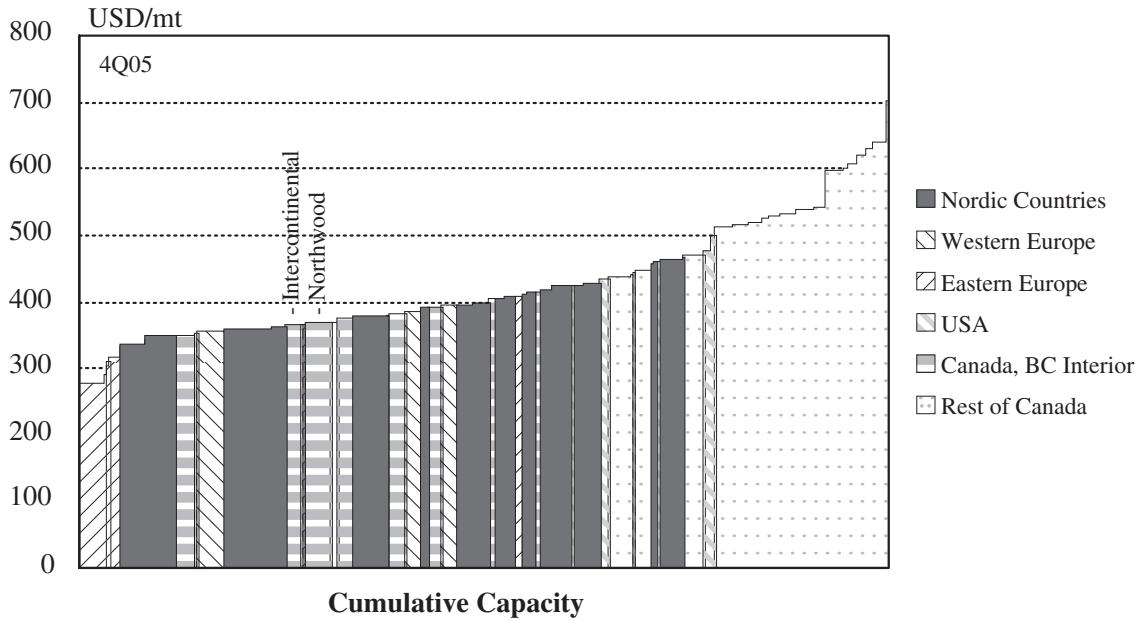
Northwood is a two line pulp mill with annual production of approximately 570,000 ADMT of NBSK Pulp, making it the largest NBSK Pulp facility in North America. Northwood's pulp is used to make a variety of products including printing and writing paper, tissue and specialty papers and is primarily delivered to customers in North America, Europe and Asia.

Intercontinental is a single line pulp mill with annual production of approximately 310,000 ADMT of NBSK Pulp. Intercontinental's pulp is used to make substantially the same products, and is delivered to the same markets, as Northwood's pulp.

PGP&P is an integrated two line pulp and paper mill with an annual market pulp production of approximately 153,000 ADMT of pulp and approximately 135,000 tonnes of Kraft Paper. PGP&P supplies pulp markets in North America, Europe and Asia as well as its internal paper making facilities. The paper mill produces a wide range of both bleached and unbleached Kraft Paper, is the largest producer of its types of bleached Kraft Paper in North America and primarily supplies North American and European markets.

Competitive Position

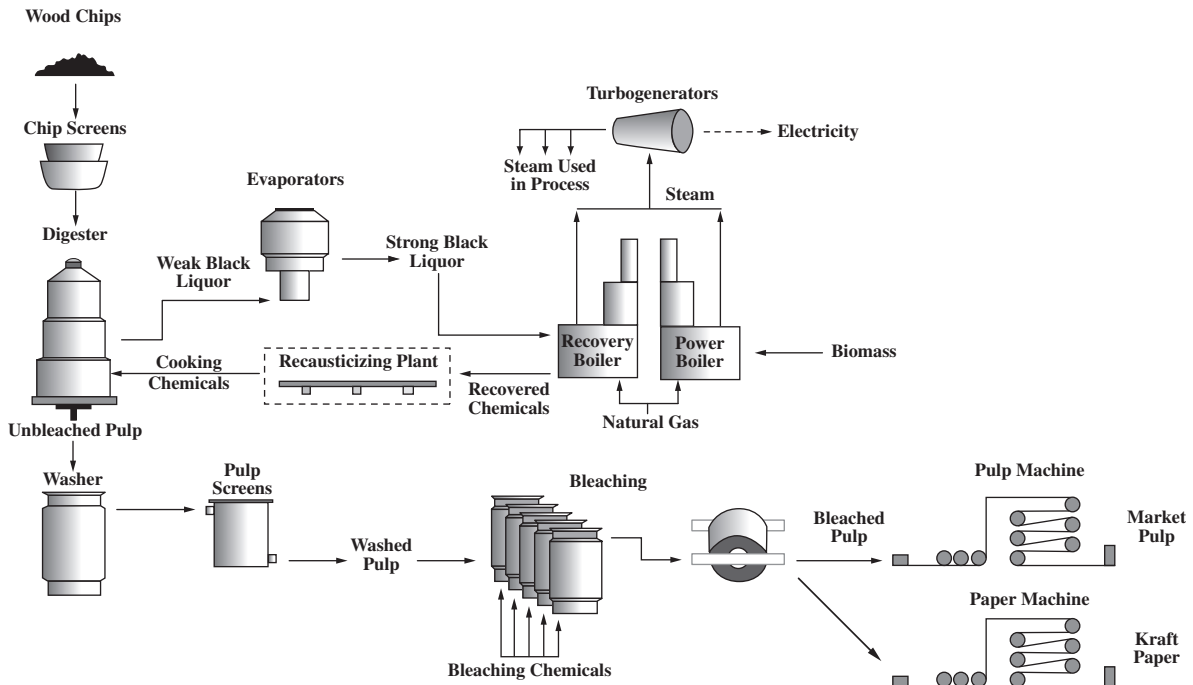
As shown in the following chart, Intercontinental and Northwood are at in the first quartile of average cost for production of NBSK pulp. This chart takes into account the lower fibre costs enjoyed by the mills in the last quarter of 2005.



Source: Jaakko Poyry, using the following exchange rates: 1 EUR = 1.186 USD and 1 USD = 1.160 CAD

Manufacturing Process

The following diagram provides a simplified description of the NBSK Pulp and Kraft Paper manufacturing process at the Mills:



In order to transform wood chips into kraft pulp or kraft paper, wood chips undergo a multi-step process involving the following principal stages: chip screening, digesting and pulp washing, screening, bleaching and drying.

In the initial processing stage, wood chips are screened to remove oversized chips and sawdust and then conveyed to a pressurized digester where they are heated and cooked with chemicals. This process softens and eventually dissolves the phenolic material called lignin that binds the fibers to each other in the wood.

Cooked pulp flows out of the digester and is washed and screened to remove most of the residual spent chemicals, called black liquor, and partially cooked wood chips. The pulp then undergoes a series of bleaching stages where the brightness of the pulp is gradually increased. Finally, the bleached pulp is sent to the pulp machine where it is dried to achieve a dryness level of more than 90%. The pulp is then ready to be baled for shipment to customers. Alternatively, to produce Kraft Paper, the bleached pulp is sent to the paper machine which converts the pulp to Kraft Paper which is rolled for shipment to customers.

A significant feature of kraft pulping technology is the recovery system, through which chemicals used in the cooking process are captured and extracted for re-use, which reduces chemical costs and improves environmental performance. During the cooking stage, dissolved organic wood materials and black liquor are extracted from the wood chips in the digester. After undergoing an evaporation process, which removes excess water from liquors drawn from the digester, the resulting black liquor, which is now rich with combustible organic materials, is burned in a recovery boiler. The chemical compounds of the black liquor are collected from the recovery boiler and are reconstituted into cooking chemicals which are eventually re-used in the digesting process.

The heat produced by the recovery boiler is used to generate high-pressure steam. Additional steam is generated by a power boiler through the combustion of biomass consisting of hog fuel, residue generated by the effluent treatment system as well as purchased natural gas. The steam produced by the recovery and power boilers is used to power a turbogenerator to generate electricity, as well as to provide heat for the digesting and pulp drying processes.

Products

Pulp

Different paper making applications place different demands on their fibre components. The properties of the component pulps, especially their length, coarseness and collapsibility, strongly influence their paper making potential and the quality of the final paper. Some papers require very high tensile strength properties while others require a very bulky porous structure. Other paper grades need folding endurance, while still others must be strong while light in weight. No one fibre type is ideal for all of these circumstances.

Due to the climate conditions in the central interior of British Columbia, cold winters and relatively dry summers, the spruce, pine and fir that make up the fibre supply develop long, slender and thin-walled fibres which are generally recognized as being one of the strongest in the world. This characteristic allows the Mills to produce a premium reinforcing NBSK Pulp with excellent tensile properties that commands a premium price. The Mills are able to consistently produce a premium reinforcing NBSK Pulp since all of their fibre is sourced from sawmills in the central interior of British Columbia.

Approximately 90% of the market pulp production of the Mills is focused on a single variety of NBSK Pulp in order to meet the demands of the Partnership’s customers. PGP&P also produces speciality varieties of unbleached and semi-bleached pulp.

The following chart shows the pulp production of the Mills for the past three years, classified according to the variety of pulp produced.

Market Pulp Production (ADMT)

<u>Product</u>	<u>Mill</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Bleached	Northwood	549,822	551,574	543,725
	Intercontinental	308,228	309,183	308,861
	PGP&P	373	9,144	24,224
Semi-Bleached	PGP&P	35,154	51,402	48,353
Unbleached	PGP&P	<u>89,630</u>	<u>69,089</u>	<u>66,929</u>
Total		983,207	990,392	992,092

Kraft Paper

PGP&P produces both bleached and unbleached Kraft Paper, but since 1995 has emphasized premium product development which has resulted in a significant change in the paper product mix, moving from lower value unbleached Kraft Paper for use in multiwall applications to high performance papers, high porous, bleached and unbleached Kraft Papers, and specialty papers where profit margins are higher.

PGP&P is the only North American producer that has a large paper machine capable of producing fully bleached, high performance Kraft Paper. Its focus on producing and creating a demand for this product has allowed it to increase its production of fully bleached Kraft Paper from 42% of total production in 2003 to approximately 72% of total production in 2005. Management intends to continue this focus with the goal of moving all or substantially all of PGP&P's entire production to the higher-margin fully bleached Kraft Paper within five years.

The following chart shows the Kraft Paper production of PGP&P for each of the past three years, classified according to the variety of Kraft Paper produced.

Kraft Paper Production (tonnes)

<u>Product</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Bleached.....	91,709	68,387	54,268
Unbleached	35,715	65,691	74,247
Total	127,424	134,078	128,515

Sales and Marketing

Pulp

The Partnership has a sales and marketing department staffed by full time marketing professionals who are responsible for global sales of all of the NBSK Pulp produced by the Mills through three regional offices. Customers in the Americas are serviced through a Vancouver office while European customers are serviced through a Brussels office. Asian customers (excluding Japanese customers) are generally serviced through long-term sales agents who have been granted exclusive territories. These sales agents generally realize a commission of between 1% and 2% of the net selling price of the NBSK Pulp, with the fee varying depending on the selling price, services provided and the tonnage sold.

A joint venture marketing company, Canfor April Corporation, owned equally by the Partnership and Asia Pacific Resources International Holdings Ltd. (“**APRIL**”) is responsible for selling in Japan Market Pulp produced by the Mills and by APRIL's Riaupulp mill in Indonesia.

The following chart shows pulp sales by the Mills for the last three years, classified by sales region:

Market Pulp Sales by Geographic Region (ADMT)

<u>Year</u>	<u>Total Sales</u>	<u>Geographic Region</u>		
		<u>North America</u>	<u>Europe</u>	<u>Asia</u>
2005	982,101	395,931 (40%)	280,314 (29%)	305,856 (31%)
2004	974,434	348,595 (36%)	337,913 (35%)	287,925 (29%)
2003	999,178	314,576 (32%)	341,040 (34%)	343,561 (34%)

For an arm's-length fee to be determined from time to time by Canfor and the Partnership, the Partnership will also market and sell chemi-thermo mechanical pulp produced by Canfor's Taylor Pulp Mill.

Kraft Paper

A sales and marketing partnership, Premium 1 Papers, owned equally by the Partnership and Tolko Marketing and Sales Ltd. (“**Tolko**”) is responsible for marketing all bleached and unbleached Kraft Paper products produced by PGP&P and Tolko's unbleached Kraft Paper mill in The Pas, Manitoba. Premium 1 Papers has approximately 14 full time marketing professionals.

The following chart shows sales of Kraft Paper produced by PGP&P for the last three years, classified by sales region.

Kraft Paper Sales by Geographic Region (tonnes)

<u>Year</u>	<u>Total Sales</u>	<u>Geographic Region</u>		
		<u>North America</u>	<u>Europe</u>	<u>Asia</u>
2005	127,252	89,503 (70%)	33,137 (26%)	4,612 (4%)
2004	139,820	106,934 (77%)	22,522 (16%)	10,151 (7%)
2003	121,370	92,551 (76%)	18,433 (15%)	10,386 (9%)

Customers

Pulp

The Mills have long-standing relationships with the majority of their customers, some for as long as 40 years. All of the largest customers have evergreen supply agreements with lengthy notice periods and ramp down clauses should either party wish to terminate the agreement.

In 2005, the Partnership’s top 10 customers purchased approximately 650,000 ADMT of pulp, or 65% of the Partnership’s total pulp sales. The Partnership’s largest customer accounted for 26% of its total pulp sales and was the only customer which accounted for more than 10% of the Partnership’s total pulp sales.

Due to the high quality of its pulp, the Partnership has rarely had any difficulty in selling all of its production. As a result, its main marketing focus has been on optimizing the technical fit and geographic/customer mix to maximize mill nets over the business cycle.

The Partnership adopts a conservative approach to extending credit to customers in order to minimize the risk of bad debts. Most overseas sales require a letter of credit and are fully insured, with the exceptions being large, global customers with strong credit ratings. Due to this conservative credit policy, the Partnership has experienced no bad debt expense in its sales over the last 3 years.

Kraft Paper

Similar to the pulp business, the Kraft Paper customer base is characterized by many long-standing relationships with evergreen contracts.

In 2005, the Partnership’s top 10 Kraft Paper customers purchased approximately 93,000 tonnes of Kraft Paper, or 73% of the Partnership’s total Kraft Paper sales. The Partnership’s largest customer accounted for 20% of its total Kraft Paper sales and only two additional customers accounted for more than 10% of the Partnership’s total Kraft Paper sales.

The Partnership adopts a similar conservative approach to extending credit to Kraft Paper customers in order to minimize the risk of bad debts. Due to this conservative credit policy, the Partnership has experienced no material bad debt expense in its Kraft Paper sales over the last 3 years.

Human Resources

The Partnership employs approximately 1,250 people throughout the organization and approximately 75% of these employees are hourly employees covered by collective agreements with the Communications, Energy and Paperworkers Union (“CEP”) and the Pulp, Paper and Woodworkers of Canada (“PPWC”). Negotiations with the CEP and the PPWC for the renewal of the agreements covering the pulp and paper operations were successfully concluded and ratified in 2003 for terms of five years expiring on April 30, 2008.

The agreements provide for wage increases totalling 11% over the five-year term.

The following chart summarizes, for each Mill, the number of employees, collective agreements in effect and the percentage of the workforce governed by these agreements.

<u>Mill</u>	<u>Employees</u>	<u>Union</u>	<u>% Unionized</u>	<u>Agreement Expiry</u>
Northwood	500	CEP, Local 603	80%	April 30, 2008
Intercontinental.....	300	PPWC, Local 9	80%	April 30, 2008
PGP&P	400	PPWC, Local 9 CEP, Local 1133	75%	April 30, 2008
Sales and Marketing	45	N/A	0%	N/A

Capital Expenditures

Capital expenditures in connection with the Mills can be categorized into two types: sustaining and discretionary. Sustaining capital expenditures are additions to or replacements of assets required to maintain the operational components of the Mills at their current capacity. Discretionary capital expenditures are earnings enhancing projects undertaken to increase productivity, reduce costs or increase operating capacity.

During the last three years, an average of \$43 million has been spent annually on capital expenditures at the Mills, of which \$8.3 million were sustaining capital expenditures and the remainder were discretionary capital expenditures. Management estimates that in order to maintain the Mills in good working order, future sustaining capital expenditures will average approximately \$34 million per year, before adjustment for inflation, which will be funded out of operating cash flow of the Partnership.

Estimated sustaining capital expenditures include an annual reserve of \$4 million per year for the next 20 years to fund significant capital projects including the reconstruction of a recovery boiler at Northwood at a cost (in 2004 dollars) of \$55 million.

The following table summarizes capital expenditures by the Mills over the past three years:

	<u>Year Ended December 31,</u>		
	<u>2005</u>	<u>2004</u>	<u>2003</u>
	(unaudited)		
	(in thousands of dollars)		
<u>Capital Expenditures</u>			
Sustaining	3,845	11,954	9,221
Discretionary	<u>39,225</u>	<u>48,464</u>	<u>14,087</u>
Total capital expenditures	<u>43,070</u>	<u>60,418</u>	<u>23,308</u>

Discretionary capital expenditures over the past three years were made principally in connection with the Cogeneration Project. Completed at a cost of \$115.4 million, less \$45.8 million recovered from BC Hydro under the Cogeneration Agreement, the Cogeneration Project is expected to provide 1,070 MWh of electricity per day and operating cost savings of approximately \$21.5 million per year. The Partnership will consider future discretionary capital expenditures which generate an attractive return and are accretive to Distributable Cash, and expects to fund such discretionary capital expenditures out of operating cash flow of the Partnership, draws under the New Credit Facilities, or from a combination of these sources.

Operating Cash Costs

Fibre is the single largest component of the Mills' total operating cash costs and, due to the plentiful supply of wood in the region where the Mills operate, provides the Mills with a significant competitive advantage. The following chart shows fibre costs for the Mills compared to other operating cash costs.

	Year Ended December 31,		
	2005	2004	2003
	(unaudited) (\$ per ADMT)		
<u>Pulp</u>			
Fibre cost	172	207	183
Adjusted fibre cost ⁽¹⁾	126	N/A	N/A
Other cash costs ⁽²⁾	303	301	310
Adjusted other cash costs ⁽³⁾	282	N/A	N/A
Total operating cash costs	475	508	493
Adjusted total operating cash costs ⁽¹⁾⁽³⁾	408	N/A	N/A
<u>Kraft Paper</u>			
Total operating cash costs	718	770	744

- (1) The adjustment for cost of fibre gives effect to the pricing formula in the Fibre Supply Agreement as though it had been in effect for wood chips consumed from January 1, 2005. See “— Fibre Supply — Fibre Supply Agreement — Summary of Cost Savings”.
- (2) Includes labour, chemicals, energy, maintenance, overhead and other cash costs.
- (3) The adjustment for other cash costs gives effect to the productivity increase and energy savings from the Cogeneration Project as though it had been completed and fully operational by January 1, 2005. See “— Energy — PGP&P — Cogeneration Agreement — Summary of Cost Savings”.

Fibre Supply

General

When running at full capacity, the Mills' annual fibre requirements are expected to be approximately 2.4 million ODTs of wood chips and 565,000 ODTs of hog fuel. The availability of wood chips for purchase and processing in the central interior of British Columbia depends in large part on the timber supply in the Prince George Timber Supply Area (“PGTSA”). Historically, the annual allowable cut levels in the PGTSA have been sufficient to supply all of the fibre requirements of the Mills. In order to control the mountain pine beetle infestation in the area the Ministry of Forests has increased the annual allowable cut in the PGTSA by approximately 30%. This increase in the AAC is projected to remain in effect for at least the next eight to ten years, resulting in an increase in the already abundant supply of wood chips. The Partnership anticipates this surplus of fibre will result in very competitive fibre pricing over the short and medium-term and estimates that the average price of delivered wood chips will provide the Mills with some of the lowest fibre costs in the world and a significant competitive advantage relative to eastern Canadian producers.

The Mills' annual fibre requirement of 2.4 million ODTs of wood chips is satisfied through purchases from sawmills in the region. The Mills obtain approximately 1.8 million ODTs of wood chips from 10 Canfor sawmills in the region and approximately 1.1 million ODTs from other sawmills. The Mills trade or resell any wood chips obtained in excess of their requirements to other facilities.

Fibre Flow

	ODTs (millions)
Purchases from Canfor	1.8
Purchases from other sawmills	1.1
Sales/trades	<u>(0.5)</u>
Total usage	2.4

The Mills have a wood chip supply consisting primarily of lodgepole pine and white spruce. The wood chip species percentages are variable by Mill, depending on the supply sources directed to each Mill. Wood chips are stored in co-mingled piles at each of the Mills, with the exception of any wood chips derived from balsam fir, which are stored separately at PGP&P and used principally in the production of unbleached pulp and paper. Wood chips from each species are combined and processed to produce a premium reinforcing market NBSK Pulp and for use by PGP&P in producing Kraft Paper.

Fibre Supply Agreement

On the Effective Date, the Partnership will enter into the Fibre Supply Agreement with Canfor under which Canfor will supply the Partnership with agreed annual quantities of the residual wood chips and hog fuel produced at specified sawmills in the Prince George Forest Region.

If Canfor discontinues operation of, or reduces production on a long term basis at, any of the specified sawmills, the Partnership has the right to replace the lost volume from other Canfor sawmills which are closest in terms of transportation efficiency to the Mills. Canfor will have the first right of opportunity to sell to the Partnership any wood chips required by the Partnership in excess of the agreed maximum annual quantity on the same commercial terms including price, as set out in the Fibre Supply Agreement. If the Partnership requires additional annual quantities of wood chips due to an increase in the capacity of the Mills, the Partnership is required to first offer to purchase the additional wood chips from Canfor on the same commercial terms as those set out in the Fibre Supply Agreement. The Partnership will also have the first right to acquire additional wood chips from any sawmill facility subsequently acquired or constructed by Canfor in the Prince George Forest Region, subject to any commitments affecting an acquired facility which are in effect or required by the vendor as a condition of the acquisition. Canfor has the right, on prior written notice, to require the Partnership to purchase wood chips from Canfor in excess of the agreed maximum annual quantity. If, as a result, the Partnership is required to terminate or cancel other supply agreements in order to take the additional Canfor wood chips, then the price that Canfor is entitled to receive will not be greater than the price paid pursuant to the other supply agreements which were terminated or cancelled.

The price (the ‘**Base Price**’) to be paid by the Partnership for all wood chips supplied by Canfor under the Fibre Supply Agreement in each month in the term of that agreement will be a price per ODT based upon a three month average rolling Mill Net determined in accordance with the following:

<u>Three Month Average Rolling Mill Net (“AMN”)</u>	<u>Base Price Calculation</u>
=<\$500.00	(AMN × 7.25%) – \$5.00
>\$500.00	(AMN × 7.25%)
>\$600.00	(AMN × 7.75%)
>\$750.00	(AMN × 8.25%)

The three month average rolling Mill Net calculation will be based upon actual sales in each month of fully bleached, semi-bleached and unbleached kraft pulp averaged by weight. The price paid by the Partnership will be adjusted periodically to reflect prices prevailing on the open market. The price paid by the Partnership will also be adjusted for wood chip quality and to reflect any changes in the actual freight cost for delivering the wood chips to the Mills if Canfor elects to supply wood chips from Canfor sawmills other than the Canfor sawmills specified in the Fibre Supply Agreement. The Partnership will also be entitled, upon giving three months’ prior written notice, to request Canfor to supply the Partnership with pulplogs or other pulpwood harvested by or on behalf of Canfor from its woodlands operations, at market prices in the Prince George forest region.

Canfor will also supply the Partnership with agreed annual quantities of hog fuel produced from specified Canfor sawmills located within the Prince George forest region. If Canfor discontinues operations at any of the specified Canfor sawmills, Canfor must use its reasonable efforts to supply the Partnership with hog fuel from other Canfor facilities so as to maintain the quantity of hog fuel supplied to the Partnership. Canfor will also have the right, on not less than six months’ prior written notice to the Partnership, to reduce the quantity of hog fuel delivered from the specified sawmills. If Canfor exercises this option, the Partnership will be entitled to acquire hog fuel from other Canfor sawmills which are closest in terms of truck hauling to the Mills in order to replace the displaced quantity of hog fuel, to the extent hog fuel is available from the other Canfor sawmills. The price to be paid by the Partnership to Canfor for hog fuel supplied under the Fibre Supply Agreement will be the prevailing market price, which is currently nominal.

Summary of Cost Savings

The same wood chip pricing formula as set out in the Fibre Supply Agreement was phased in during the third quarter of 2005 for wood chips purchased by the Pulp Business from Canfor and other suppliers. The actual average cost to the Partnership of wood chips during 2005 was \$80.78 per ODT, while the average cost to the Partnership of wood chips during 2005 using this pricing formula would have been \$59.05 per ODT, resulting in an average saving of \$21.73 per ODT. Had this pricing formula been applied to the total 2.4 million ODTs of wood chips consumed in the Pulp Business during 2005, the total cost of wood chips consumed in the year would have been reduced by approximately \$51.2 million.

Other Fibre Supply Arrangements

The Mills currently have short and long term chip supply agreements with 18 different suppliers, other than Canfor, supplying a total of 1.1 million ODTs on an annual basis. These agreements are for periods ranging between one and 18 years and each permits the Mills to purchase wood chips available at a specified sawmill, subject to certain maximums. These agreements do not provide for minimum volumes, which protects the Mills from being required to purchase wood chips in excess of their requirements.

Pricing for wood chips purchased under these agreements is based on the same formula as used in the Fibre Supply Agreement, subject to adjustment for chip quality. Similar to other pulp producers, the Mills have chip quality incentive programs for suppliers designed to reduce off-grade pulp. The program is designed to ensure the highest quality of wood chips is supplied by reducing bark and chip fines as well as defining the preferred classification mix of wood chips. Wood chip quality measurements are, in most cases, the responsibility of the supplier, with the Mills entitled to conduct audits.

In addition to the supply of hog fuel under the Fibre Supply Agreement, the Partnership will be able to source hog fuel from a variety of suppliers, as hog fuel currently has limited value at the source and is usually sold in the region for the cost of transportation to the Mills.

The Partnership expects that the Fibre Supply Agreement, together with supplemental agreements with other parties for the supply of wood chips, will satisfy all of its anticipated fibre requirements to operate the Mills at current or reasonably projected levels of operation.

Energy

Northwood

Northwood generates approximately 83% of its electrical power requirements and purchases the remaining 17% from BC Hydro. Northwood's steam production is approximately 70% from black liquor from the kraft pulping process, 18% from hog fuel and 11% from natural gas.

Intercontinental

Intercontinental historically produced approximately 53% of its electrical power requirements and purchased the remaining 47% from BC Hydro. With the completion of the Cogeneration Project, Intercontinental expects to produce or acquire from PGP&P a total of approximately 85% of its electrical power requirements and purchase the remaining 15% from BC Hydro. Intercontinental's steam production is primarily from black liquor and hog fuel, with only 5% being generated through natural gas.

PGP&P

Historically, energy used for the production of pulp and paper at PGP&P was provided through purchased electricity and burning natural gas, hog fuel and internally generated black liquor. Most of these fuels were burned in boilers to produce steam that is used in mill processes.

Cogeneration Agreement

In October 2003 BC Hydro entered into an agreement (the "**Cogeneration Agreement**") under which it agreed to contribute \$46 million, through its PowerSmart Program, to construct an electrical cogeneration facility at PGP&P designed to produce 48 MW of electricity (the "**Cogeneration Project**"). In addition to the construction of the electrical cogeneration facility, the Cogeneration Project included the modification of two of the three boilers at

PGP&P and the addition of wood waste and ash handling systems to enable a more efficient use of energy generated from black liquor and significantly higher steam production from hog fuel.

The Cogeneration Agreement requires the Cogeneration Project to be operated for a period of 15 years from its completion at an average annual electricity output of 390 GWh, to supply the electricity requirements of PGP&P and Intercontinental up to a maximum of 1,070 MWh per day. If there is a suspension or curtailment of, or other condition affecting, the operation of Intercontinental or PGP&P which reduces the forecast annual electricity requirement of these two mills below 390 GWh, BC Hydro may require, for a period specified in a written notice given by it, that the Cogeneration Project be operated to generate up to 1,070 MWh of electricity per day and that the excess electricity be delivered to BC Hydro without any further payment by it. That obligation does not apply once the Cogeneration Project has generated 390 GWh in any year. Otherwise, electricity generated at the Cogeneration Project in excess of the requirements of the two mills may be sold to third parties including BC Hydro and its subsidiary, Powerex Corp. The Cogeneration Agreement also provides that if the Cogeneration Project generates less than 390 GWh in any year and the shortfall cannot be made up by excess generation of up to 39 GWh in prior years or excess generation in the subsequent year, BC Hydro is entitled to be paid an amount equal to \$3.27 million multiplied by the ratio of the uncorrected shortfall to the annual requirement of 390 GWh.

The Cogeneration Project was completed in June 2005 and is currently generating an average of 950 MWh of electricity per day, which is 89% of the targeted generating capacity of the facility. Completion of the Cogeneration Project has also resulted in a significant increase in steam production and the elimination of 77% of natural gas usage in steam generation.

Summary of Cost Savings

Production rates at the PGP&P mill in 2005 were curtailed during and after the construction and installation of the Cogeneration Project and before the additional precipitator was completed, in order to operate within allowable air emission standards. Much of the impact of the cost of lost production was offset by energy cost savings, for a net estimated loss in 2005 resulting from installation of the Cogeneration Project of \$1.1 million.

However based on 2005 energy rates, had the Cogeneration Project been fully operational from the beginning of 2005, the cost savings for the year would have been \$22.6 million. These annual savings are primarily generated from the elimination of annual consumption of 390,000 MWh of purchased electricity, based on a price of \$36.53 per MWh and the elimination of annual consumption of 787,000 gigajoules of purchased natural gas, based on a price of \$8.05 per gigajoule. The following table shows the breakdown of the total estimated cost savings.

<u>Category</u>	<u>Description</u>	<u>Annual Cost Savings</u> <u>(\$ millions)</u>
Electricity	Elimination of 390,000 MWh of purchased electricity	\$14.3
Natural Gas	Elimination of 787,000 gigajoules of purchased natural gas	\$ 6.3
Maintenance	Reduction in annual maintenance cost	\$ 0.8
Production	Increase in production rates	\$ 2.1
Hog Fuel	Additional hog fuel costs	<u>\$ (2.0)</u>
	Annual cost savings	\$21.5
	Add back net productivity loss in 2005	<u>\$ 1.1</u>
	Total estimated cost savings for 2005	<u><u>\$22.6</u></u>

With the completion of the Cogeneration Project, PGP&P and Intercontinental are 92% self-sufficient in meeting their electricity requirements.

Chemicals

The Partnership has entered into a long-term supply agreement (the “**Chemical Supply Agreement**”) under which it has agreed to obtain all of the Mills’ requirements for the principal chemical used in the production of pulp, sodium chlorate, exclusively from Chemtrade, a subsidiary of Chemtrade Logistics Income Fund, whose facilities are located adjacent to the Intercontinental Mill. The long-term supply agreement has a minimum annual purchase requirement of 48,000 tonnes of sodium chlorate. Sodium chlorate is used for the production of chlorine dioxide, which

in turn is used in the bleaching phase of the kraft pulping process. The long-term supply agreement has eight years remaining on its initial 10 year term, and is automatically renewed for successive five year terms unless notice of termination is given by either party not less than two years prior to expiry of the then current term. The price payable by the Partnership for sodium chlorate supplied by Chemtrade is subject to quarterly adjustment to reflect the pass-through of the actual costs incurred by Chemtrade for salt, caustic soda, electricity and steam used in the production of sodium chlorate.

Transportation

The Partnership uses various modes of surface transportation to distribute its pulp and Kraft Paper products. In the case of pulp, nearly all is shipped from the Mills by rail and each of the Mills is serviced by at least one dedicated rail spur. In the case of Kraft Paper, due to the smaller average order size, a much higher percentage is shipped by truck, with the balance being shipped by rail. Products destined for overseas customers are loaded at one of three terminals in Vancouver, and are then transported by breakbulk cargo vessel for European customers, and either breakbulk or container cargo vessels for Asian customers, depending on which mode is most cost effective.

The Partnership's costs of transportation over the past three years have risen due to increasing fuel costs. The Partnership is trying to minimize the effect of these cost increases by optimizing the Partnership's geographic pulp distribution — focussing on selling pulp in North America which, due to shorter shipping distances, minimizes total transportation costs.

Environment

The Mills are subject to a wide range of general and industry-specific environmental statutes, laws, regulations, bylaws, guidelines, policies, directives and other requirements (the “**Environmental Requirements**”) governing or relating to among other things: air emissions, wastewater discharge, waste management, landfill sites, pollution prevention, site contamination and hazardous and residual materials. In addition, the Mills have obtained numerous environmental permits, authorizations and approvals relating to the protection of the environment and operation of equipment. Compliance with the Environmental Requirements requires the Mills to incur expenses and to monitor their operations on an ongoing basis.

The Mills have an Environmental Management System (“**EMS**”) that is certified under ISO 14001. Risks to the environment are formally assessed providing the foundation for continuous improvement on a priority basis. This systematic approach ensures optimum utilization of resources. Third party EMS audits and internal audits of the EMS, compliance with legal requirements, company policies and good industry practice are conducted on a regular basis.

The Mills are actively engaged in the local airshed management program including areas of ambient monitoring and research. Staff serving on air quality committees work to ensure that future airshed plans are guided by sound science.

Future regulations or permits may place lower limits on allowable emissions of all kinds, including air, water, waste and hazardous materials, and may increase the financial consequences of remaining in compliance with Environmental Requirements or conducting future remediation, if required, of spills. The Mills' EMS and policies have enabled the Partnership to develop and implement effective measures to maintain emissions in material compliance with Environmental Requirements to date. Although Management believes that adherence to and strengthening of the EMS and the policies will enable the Mills to comply with future Environmental Requirements in a cost-effective manner, there can be no assurance that this will be the case.

All of the forest areas from which the Partnership obtains its fibre supply have environmental management systems registered to the ISO 14001 standard. In addition, the Canfor forest tenures from which the Partnership obtains its fibre supply (4.86 million hectares) are certified to the Canadian Standards Association Sustainable Forest Management Standard (CAN/CSA-Z809).

Competition

The pulp industry is highly competitive, with a substantial number of competitors having extensive financial resources, manufacturing expertise, and sales and distribution organizations, many of which are larger than the Partnership's, but none of which is believed to be dominant. The principal competitive factors in the pulp market are price, quality, volume, availability and reliability of supply, and customer service. Most markets in which the Mills' products are sold are highly competitive and customers have many choices of suppliers. The Partnership's principal

competitors in North America are Weyerhaeuser, Bowater Incorporated, SFK Pulp Fund, Domtar Inc., Pope & Talbot, Inc., West Fraser Timber Co. Ltd. and Tembec Inc. For sales to Europe, the Partnership's principal competitors include Södra Group, Metsa Botnia, Mercer International, Stora Enso Oy, Weyerhaeuser and British Columbia coastal pulp mills. For sales to Asia, the Partnership's principal competitors are mills located in Chile, Russia, Scandinavia and coastal British Columbia. Mills located in the southern United States and in South America, while competing with the Partnership in some markets, typically rely upon different species which produce a kraft pulp significantly different from that produced by the Mills.

The Partnership's main competitors in their sale of Kraft Paper products are two European producers — Bilerud and Frantschach/Mondi — as they are the only companies that can produce high performance bleached papers. Tolko is the only other North American producer with high performance capability but it produces unbleached papers exclusively.

Competitive Advantages

Management believes the Partnership has the following competitive strengths and advantages:

- **Market Leadership:** The Partnership is the second largest North American and fourth largest global producer of market NBSK Pulp, with an annual production of approximately 920,000 ADMTs. The Partnership is the leading global North American producer of fully bleached, high performance Kraft Paper.
- **Low Cost Producer:** According to a PricewaterhouseCoopers LLP Market Pulp study (2004), Intercontinental is in the first quartile and Northwood and PGP&P (following completion of the Cogeneration Project) are in the second quartile in terms of manufacturing cash costs among Canadian pulp producers. This study was done prior to the lower fibre prices enjoyed by the Mills which, when reflected in a subsequent study, should result in the Mills all being in the first quartile. As a result of its low cost production, the Partnership has generated, and Management expects it will continue to generate, positive cash flow throughout the pulp price cycle.
- **Abundant Fibre Supply:** The Partnership has a long-term, secure supply of wood chips through the Fibre Supply Agreement with Canfor. Management expects that the Fibre Supply Agreement, together with supplemental agreements with other parties, will satisfy all of its anticipated fibre requirements to operate the Mills at current and projected levels. The Mills are located in the central interior of British Columbia, which has an abundant supply of fibre due to the large number of lumber production facilities in the region. In order to control a mountain pine beetle infestation in the region, the Ministry of Forests has increased the AAC by approximately 30% for at least the next eight to ten years. This abundant fibre supply provides the Partnership with a lower fibre cost than any other region in Canada and a significant competitive advantage relative to eastern Canadian producers.
- **Strong, Diverse Customer Base:** The Partnership's customers generally have technical requirements for premium NBSK Pulp, are dominant in their field, are interested in maintaining long-term relationships and have strong credit profiles. Generally, the Partnership's customers have long-standing relationships with one or more of the Mills and long-term supply contracts providing for lengthy notice and/or ramp-down periods prior to termination.
- **Experienced Management:** The Partnership has a strong management team with substantial experience and proven expertise in the forest products sector.
- **Strong Sponsorship:** Following the Effective Date, Canfor will hold a significant investment in the Partnership, thereby aligning the objectives of Canfor and the Partnership. Furthermore, the Partnership will be a significant purchaser of wood chips and hog fuel from Canfor under the Fibre Supply Agreement. Canfor is a leading integrated forest products company based in Vancouver, British Columbia, and is the largest producer of softwood lumber in Canada. Canfor also produces plywood, remanufactured lumber products, OSB, hardboard paneling and a range of specialized wood products, including baled fibre and fibre mat, at 33 facilities located in British Columbia, Alberta and Québec. Canfor employs 10,290 people — 8,100 directly, with an additional 2,190 through affiliated companies and contractors.

Strategic Direction and Opportunities to Increase Distributable Cash

Management intends to maximize and grow Distributable Cash to Unitholders by focusing on the Mills' specific strengths and core business — the production of low-cost and high-quality pulp delivered to market segments providing the best margins.

The Partnership's business focus and strategy are aimed at:

- preserving the Mills' low-cost position through (i) cost reduction initiatives in the areas of chemical usage, energy, fibre and maintenance; and (ii) efficiency improvements to increase production through process optimization and control;
- implementing quality improvement initiatives to better meet customer needs in the areas of pulp strength and product consistency; and
- leveraging its access to public markets and other financial resources and its reputation as a strong business partner to pursue selective and accretive acquisitions of existing high quality assets.

SELECTED HISTORICAL FINANCIAL AND OPERATIONAL INFORMATION

The following tables contain selected historical financial and operational information for the Pulp Business in which the Fund will have an indirect 20% interest following completion of the Spinout. The financial information has been derived from, and should be read in conjunction with the audited financial statements of the Pulp Business included in this Appendix.

	<u>Year Ended December 31,</u>		
	<u>2005</u>	<u>2004</u>	<u>2003</u>
	(audited)		
	(in millions of dollars)		
<u>Income Statement</u>			
Sales	783.9	849.7	790.5
Costs and Expenses			
Manufacturing and product costs	591.0	629.7	604.4
Freight and other distribution costs	114.0	115.1	112.7
Amortization	47.2	45.7	45.7
Selling and administration	19.7	20.7	19.9
Earnings before income taxes	12.0	38.5	7.8
Income tax expense	1.8	15.4	4.7
Net Income	<u>10.2</u>	<u>23.1</u>	<u>3.1</u>

	<u>Year Ended December 31,</u>		
	<u>2005</u>	<u>2004</u>	<u>2003</u>
	(unaudited)		
<u>Production Statistics</u>			
Pulp			
Sales volume (ADMTs)	982,101	974,363	999,178
Productivity (ADMTs produced per operating day)	3,165	3,160	3,196
Average price realized (per ADMT)	535	597	537
Fibre costs (per ADMT)	172	207	183
Cash conversion costs (per ADMT)	301	308	312
Paper			
Sales volume (tonnes)	127,419	139,820	121,370
Productivity (tonnes produced per operating day)	354	375	368
Average price realized (per tonne)	775	773	824
Cash conversion costs (per tonne)	203	208	207
Cash production costs (per tonne)	718	770	744

Reconciliation of Non-GAAP Measures

	<u>Year Ended</u> <u>December 31,</u>		
	<u>2005</u>	<u>2004</u>	<u>2003</u>
	(unaudited)		
	(in millions of dollars)		
Net income	10.2	23.1	3.1
Income taxes	1.8	15.4	4.7
Interest expense	—	—	—
Amortization	47.2	45.7	45.7
EBITDA ⁽¹⁾	<u>59.2</u>	<u>84.2</u>	<u>53.5</u>

(1) EBITDA is not a recognized measure under Canadian GAAP. See “Information Circular — Supplemental Disclosure”.

Summary of Distributable Cash

The following analysis of Distributable Cash was prepared by management to assist a reader of this Information Circular and is based on information contained in this Information Circular and management's estimate of the amounts of certain expenses to be incurred by the Partnership following the Effective Date. It is not a forecast or a projection of future results. The actual results of operations of the Partnership for any period following the Effective Date will vary from the amounts set forth in the following analysis and such variation may be material. See "Risk Factors" for a discussion of the risks that could cause actual results to vary.

	Year Ended December 31, 2005⁽¹⁾
	(unaudited) (in millions of dollars except per unit amounts)
EBITDA ⁽²⁾	59.2
Impact of the fibre price change ⁽³⁾	51.2
Impact of Cogeneration Project ⁽⁴⁾	<u>22.6</u>
Adjusted EBITDA	133.0
Management believes the following deductions are required to determine estimated Distributable Cash:	
Capital expenditures ⁽⁵⁾	(34.0)
Interest expense ⁽⁶⁾	<u>(10.0)</u>
Estimated Distributable Cash	89.0
Less 10% holdback (90% payout ratio)	<u>(8.9)</u>
Estimated distributions	<u>80.1</u>
Estimated distributions per LP Unit ⁽⁷⁾	<u>\$ 1.12</u>

(1) The results for this period are not necessarily indicative of the results to be expected in any given fiscal year. If the Spinout is completed on July 1, 2006 as planned, the first cash distribution of the Fund, anticipated to be approximately \$0.10 to \$0.11 per Fund Unit, is expected to be paid on August 15, 2006 to holders of record of Fund Units as at July 31, 2006.

(2) EBITDA is not a recognized measure under Canadian generally accepted accounting principles (GAAP). See "Information Circular — Supplemental Disclosure".

(3) The adjustment for cost of fibre gives effect to the pricing formula in the Fibre Supply Agreement as though it had been in effect for wood chips consumed from January 1, 2005. See "— The Pulp Business — Fibre Supply — Fibre Supply Agreement — Summary of Cost Savings".

(4) The adjustment for productivity increase and energy savings gives effect to the Cogeneration Project as though it had been completed and fully operational by January 1, 2005. See "— The Pulp Business — Energy — PGP&P — Summary of Cost Savings".

(5) Reflects management's estimates of future annual sustaining capital expenditures (before inflation adjustment.) Actual historic capital expenditures differ from management's estimates. For a review of actual historic sustaining and discretionary capital expenditures. See "The Pulp Business — Capital Expenditures."

(6) Estimated annual interest and financing expense associated with the Promissory Note and the New Credit Facilities. See "— New Credit Facilities".

(7) Per unit amounts are based on 71.265 million LP Units outstanding for the period. Amounts distributed per Fund Unit are not expected to vary materially from the amount distributed per LP Unit.

CONSOLIDATED CAPITALIZATION OF THE FUND

The following table sets forth the consolidated capitalization of the Fund as at April 27, 2006 both before and after giving effect to the Spinout.

<u>Designation</u>	<u>Authorized</u>	<u>As at April 27, 2006</u>	<u>As at April 27, 2006, After Giving Effect to the Spinout</u> (in thousands)
Fund Units ⁽¹⁾	Unlimited	\$1,000 (100 Fund Units)	\$123,500 (14.253 million Fund Units)

(1) The Fund was initially settled on April 21, 2006 with \$1,000 paid for 100 Fund Units by the settlor of the Fund. These Fund Units will be purchased for cancellation following completion of the Spinout.

CONSOLIDATED CAPITALIZATION OF THE PARTNERSHIP

The following table sets forth the consolidated capitalization of the Partnership both before and after giving effect to the Spinout and the New Credit Facilities.

<u>Designation</u>	<u>Authorized</u>	<u>As at April 27, 2006</u>	<u>As at April 27, 2006, After Giving Effect to the Spinout and the Term Facility</u> (in thousands)
Term Facility		—	\$125,000
Partners' Equity (Deficit)	Unlimited	\$2,000 (100 Class A LP Units and GP Interest)	\$606,110
<u>Total Capitalization</u>		<u>\$2,000</u>	<u>\$731,110</u>

(1) The Promissory Note will be outstanding on the Effective Date until the Term Facility is in place and drawn to repay the Promissory Note.

NEW CREDIT FACILITIES

In connection with the Spinout, on the Effective Date Canfor will provide the Partnership with financial support by accepting the Promissory Note and by financing, on a revolving basis through its cash reserves, changes in the Partnership's working capital. This financial support will be provided on an unsecured basis and will bear interest at market rates. This financial support will be repaid through advances made under the New Credit Facilities which are expected to be in place within 90 to 180 days of the Effective Date.

The Partnership has received expressions of interest from a number of commercial lenders in respect of the New Credit Facilities, which will provide the Partnership with aggregate financing of up to \$200 million, consisting of (a) a Revolving Facility (to be used by the Partnership for general corporate and working capital purposes); and (b) a non-revolving Term Facility, the proceeds of which will be used to repay the Promissory Note.

Revolving Facility

The Partnership anticipates that the Revolving Facility will be available for general corporate purposes, including fees and expenses associated with the Acquisition and, subject to certain limits, payment of cash distributions by the Partnership and that letters of credit will be also available under the Revolving Facility on customary terms for facilities of this nature.

Term Facility

The Partnership anticipates that the Term Facility will be used to repay the Promissory Note and will be scheduled to mature not less than three years after the Effective Date with no scheduled repayments of principal required prior to maturity.

Terms of New Credit Facilities

The Partnership anticipates that advances under the Revolving Facility will be repayable without any prepayment penalties and will bear interest at the prevailing prime rate, U.S. base rate, bankers' acceptance rate or LIBOR plus, in each case, an applicable margin to those base rates. All of the assets of the Partnership (including of its subsidiaries) will be secured in support of the Partnership's obligations under the New Credit Facilities. The New Credit Facilities will be without recourse to either the Trust or Canfor, except to the extent of their respective liabilities as limited partners in the Partnership.

The New Credit Facilities will be subject to customary terms and conditions for issuers of this nature, including limits on granting liens or selling assets without the consent of the lenders. The New Credit Facilities are expected to be subject to the maintenance of a maximum ratio of total debt to EBITDA and a minimum ratio of EBITDA to interest expense. The New Credit Facilities may in certain circumstances restrict the Partnership's ability to pay distributions on its LP Units, including limiting distributions to the amount of Distributable Cash generated over a specified period.

The Partnership may seek to implement a hedging program to mitigate interest rate exposure under the New Credit Facilities.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following Management's Discussion and Analysis of Financial Condition and Results of Operations relates to the financial condition and results of operations of the Mills, which carried on the Pulp Business prior to the Effective Date. The Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the Canfor Corporation NBSK Pulp and Paper Business Unit Financial Statements included in this Appendix E.

This discussion contains statements that are not historical facts and are forward-looking statements. These statements are subject to a number of risks described under "Risk Factors". These risks and uncertainties may cause actual results to differ materially from those contained in such forward-looking statements. Such statements reflect management's current views and are based on certain assumptions. They are, by necessity, only estimates of future developments and actual developments may differ materially from these statements due to a number of factors. Investors are cautioned not to place undue reliance on such forward-looking statements. No forward-looking statement is a guarantee of future results. Please see "Information Circular — Forward-Looking Statements" for a discussion of the risks, uncertainties and assumptions relating to these statements.

Throughout this discussion, reference is made to EBITDA, which the Partnership considers to be an important indicator for identifying trends in the performance of the Pulp Business and of the Partnership's ability to generate funds to meet its debt repayment and capital expenditure requirements. EBITDA is not a generally accepted earnings measure and should not be considered as an alternative to net income or cash flows as determined in accordance with Canadian generally accepted accounting principles. As there is no standardized method of calculating EBITDA, the Partnership's use of the term may not be directly comparable with similarly titled measures used by other entities.

Overview of 2005

Overview

The Pulp Business consists of the Canfor British Columbia interior NBSK pulp and paper operations and related marketing activities. The PGP&P, Intercontinental and Northwood Mills are all located in the Prince George area and all owned by Canfor, and have carried on the Pulp Business prior to the Effective Date. The Pulp Business principally produces premium NBSK Pulp, and also produces unbleached and semi-bleached pulp as well as premium and speciality Kraft Paper.

Revenues from the Pulp Business are earned primarily from the sale of premium NBSK Pulp, with a portion of revenues generated from the sale of unbleached or semi-bleached pulp and Kraft Paper. Both pulp and paper revenues are a function of the volume sold and the prices charged, and as prices for pulp and paper generally are quoted in US dollars, revenues from the Pulp Business are substantially affected by prevailing exchange rates. Revenues for the year ended December 31, 2005 were 8% lower than the previous period. This decrease resulted from a combination of difficult pulp markets and a strengthening of the Canadian dollar.

Looking forward to 2006, markets are expected to be stronger than in 2005. However, a stronger Canadian dollar could more than offset any pricing gains.

Increases in the allowable timber harvest to combat the spread of the mountain pine beetle has resulted in an abundant supply of fibre in the central interior of British Columbia. As a result, the average price of delivered wood chips to the Mills decreased significantly during the latter half of 2005. The completion of the Cogeneration Project is expected to lower production costs going forward. These improvements are expected to positively impact financial performance in 2006 and beyond.

Highlights

- On February 15, 2006, Canfor announced its intention to complete the Spinout.
- The Cogeneration Project was completed in June 2005. Energy savings of \$7.3 million realized in the latter half of 2005 were offset by productivity reductions during the project construction and installation. A related precipitator upgrade was completed in December and most of the benefits of the Cogeneration Project should be realized in 2006. The combined benefits of the Cogeneration Project are projected by management at \$21.5 million on an annual basis.

The Mills’ annual fibre requirement of 2.4 million ODT’s of wood chips is satisfied through the purchase of approximately 1.8 million ODTs from Canfor sawmills under the Fibre Supply Agreement. The remaining fibre requirements are obtained from other sawmills in the Prince George region. During 2005, chip supply contracts with third party sawmills were renegotiated to reflect the lower market price of wood chips and the transfer price of wood chips obtained from the Canfor sawmills was adjusted accordingly.

2005 Compared to 2004

2004 was a year of good market conditions, and the Pulp Business achieved earnings before income tax of \$38.5 million. 2005 was a challenging year for the Pulp Business in difficult markets. Benchmark list pricing, combined with a strengthening Canadian dollar, resulted in average Canadian dollar mill nets being near the historical bottom of the market cycle. In spite of these challenges, positive earnings before income tax of \$12.0 million were generated.

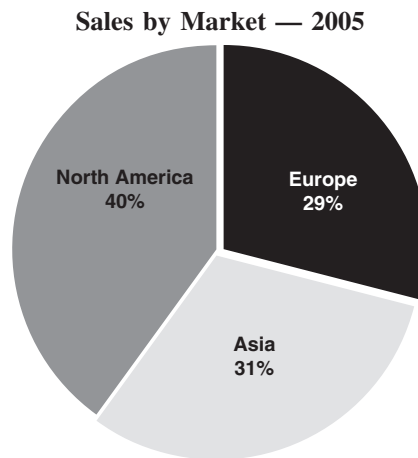
Severe cold weather in early January 2005 created operational difficulties, resulting in lower production and increased unit costs in the Mills. Shipment volumes were affected by these factors as well as by global supply and demand conditions. Shortages in railcar supply had an adverse impact on shipment volumes in the first quarter of 2005 and also in the first three quarters of 2004. A container truckers’ strike at the Port of Vancouver impacted offshore shipments in the third quarter of 2005.

Exchange Rate and Price Factors:

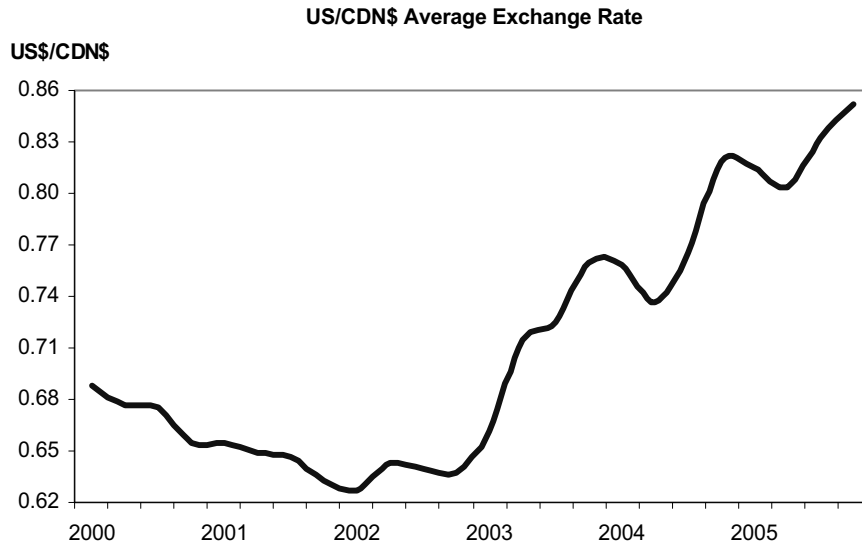
	<u>2005</u>	<u>2004</u>
Average value of the Canadian dollar against the US dollar	\$0.8255	\$0.7683
Year-end closing value of the Canadian dollar against the US dollar	<u>\$0.8577</u>	<u>\$0.8308</u>
Average pulp price delivered to Northern Europe, in US\$	\$ 611	\$ 622
Average pulp price expressed in Canadian dollars ⁽¹⁾	<u>\$ 740</u>	<u>\$ 809</u>

(1) At the average value of the Canadian dollar for the year, as noted above.

Pulp sales are made to customers in three major market areas:

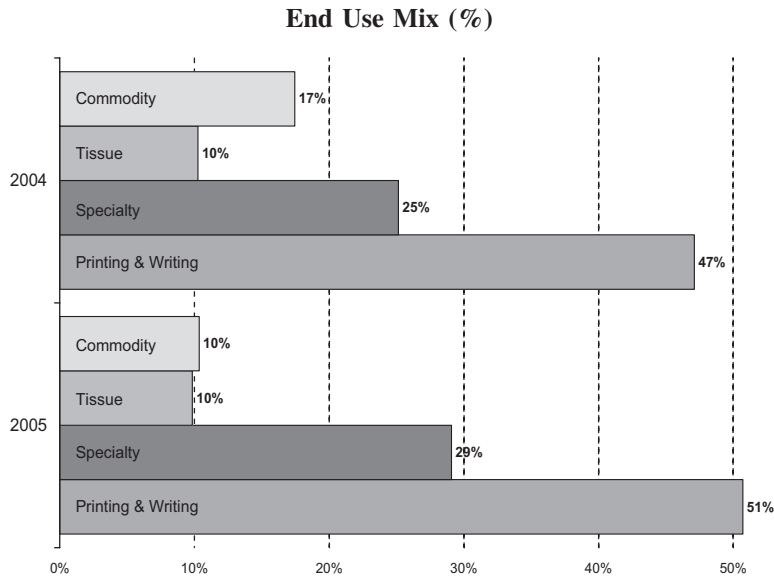


The strengthening of the Canadian dollar since 2003 has significantly reduced revenues and net income, particularly in 2005, when the Canadian dollar averaged 82.5 cents relative to the US dollar, which was its highest level since 1992.

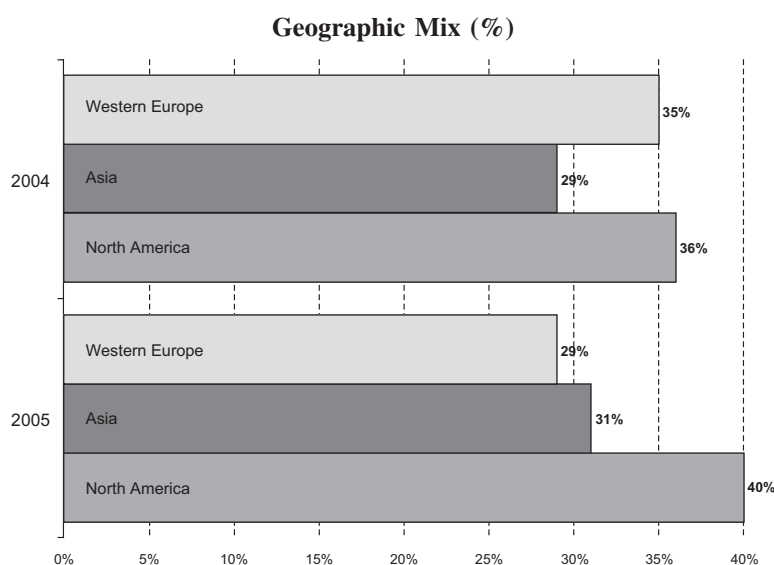


Source: Bank of Canada

Shipments to the higher-margin printing, writing and specialty segments increased by 8% in 2005:



Shipments to North America increased by 4% in 2005:



Summarized results of the Pulp Business for 2005 and 2004 are as follows:

	<u>2005</u>	<u>2004</u>
	(unaudited)	
	(millions of dollars)	
Sales	\$783.9	\$849.7
EBITDA	\$ 59.2	\$ 84.2
EBITDA margin	8%	10%
Capital expenditures	\$ 43.1	\$ 60.4
Average pulp price — delivered to Northern Europe (US\$ per tonne)	\$ 611	\$ 622
Average pulp price expressed in Canadian dollars	\$ 740	\$ 809
Pulp shipments (thousands of tonnes)	982	974
Pulp production (thousands of tonnes)	983	990
Kraft Paper shipments (thousands of tonnes)	127	140
Kraft Paper production (thousands of tonnes)	127	134

2005 EBITDA of \$59.2 million was \$25.0 million lower than in 2004. Market factors and exchange negatively impacted pre-tax earnings by \$62 million, as the average US dollar NBSK price delivered to Northern Europe fell by 2%, or by 9% when expressed in Canadian dollars. Productivity remained relatively flat, with annual records for average daily production at the Intercontinental and Northwood mills being offset by slowed-back production at PGP&P resulting from the installation and start-up of the Cogeneration Project. Positive factors offsetting the external challenges included the benefit of lower chip prices, lower energy costs as a result of the Cogeneration Project, and lower spending on maintenance and other costs. In addition, when comparing the results to the previous year, it should be noted that there were \$2.1 million of realized gains on forward exchange contracts and \$2.3 million in scientific research and development (SR&ED) tax credits included in the 2005 results.

Operating Performance

Total pulp and paper production for 2005 was 1.110 million tonnes, compared to 2004's production of 1.124 million tonnes.

Combined northern softwood kraft production averaged 3,165 tonnes per operating day in 2005 compared to 3,160 tonnes per operating day in 2004. Northwood and Intercontinental set average daily production records in 2005. Northwood struggled early in the year due to cold weather and other operational issues, averaging 1,508 tonnes per day through April. But, after completion of a maintenance outage in April and extensive maintenance and capital upgrades to the recovery boilers, Northwood averaged 1,622 tonnes per day from May through December. Production at PGP&P was slowed back due to environmental constraints while the Cogeneration Project was being completed. PGP&P averaged 706 tonnes per day compared to the previous year's rate of 767 tonnes per day.

The PGP&P paper machine averaged 354 tonnes per day compared to 375 tonnes per day in 2004. The reduced production resulted from mechanical and operational deficiencies, particularly in the second quarter.

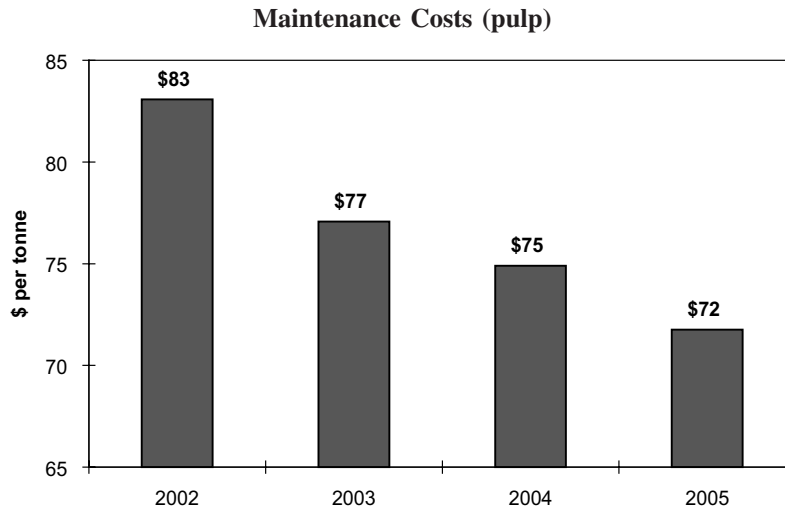
Fibre costs averaged \$81 per ODT in 2005 compared to \$98 per ODT in 2004. Lower chip pricing was implemented on July 1, 2005 as a result of excess chip supply in the interior of BC, which was driven in part by the impact of incremental pine beetle chips. 2005 chip costs were \$39.8 million less than 2004, \$27.5 million of which was a result of the new pricing formula put into effect during the latter half of 2005.

Significant strides were made in cost reduction in 2005, with cash conversion costs for NBSK Pulp ending the year 2% lower than in 2004. The realization of energy benefits from the new Cogeneration Project and the continued downward trend in maintenance costs due to asset management initiatives and the recovery boiler upgrade work at Northwood were the major factors.

The Cogeneration Project was completed mid 2005, with the conversion of the #2 recovery boiler to a power boiler and the commissioning of the turbo generator. PGP&P was slowed back in April until the new precipitator came online on December 15th. The main benefits of the Cogeneration Project are reduced electricity purchases, reduced natural gas consumption and increased productivity. The benefit realized in 2005 from reduced purchased power was approximately \$5.7 million, which was offset by reduced productivity during the installation and start up of the new equipment. Going forward savings are estimated to be \$14.3 million annually at current electricity prices. The 2005 benefit of reduced gas usage was approximately \$1.6 million and is expected to be \$6.6 million annually. The precipitator project was completed in December 2005 and substantially all of the benefits should be realized in 2006 as production ramps up and any operational issues are resolved. On an annual basis the combined benefits of the Cogeneration Project are estimated at approximately \$21.5 million.

Annual maintenance shutdowns have been successfully extended to an 18-month cycle for Northwood and Intercontinental, and PGP&P will complete its first 18-month cycle in early 2006.

Asset management initiatives continue to have a positive impact on maintenance spending, as reliability-centered maintenance, risk-based inspections, defect elimination, planning, scheduling and optimization, and business performance management initiatives provide the tools and resources to positively impact costs. Total maintenance spending for 2005 (including provision for major maintenance shutdowns) was \$89.8 million, compared to \$102.5 million in 2003.



Offsetting cost reduction initiatives were inflationary impacts on salary, labour and benefits, materials and supplies, chemicals and energy prices.

Markets

NBSK Pulp

At the beginning of 2005, there were 31 days of supply in inventory in the chemical paper grade market pulp industry⁽¹⁾, after having completed 2004 with a shipments-to-capacity ratio of 107% in December. The strong finish to 2004 was indicative of restocking by buyers in Asian markets. Stocks of NBSK Pulp, Canfor's key grade of pulp, stood at only 30 days of supply at the beginning of 2005, which is the level at which producers are likely to have enough pricing power to raise prices. Through December 2005, inventories increased slightly, to 32 days of supply.

⁽¹⁾ These inventory numbers are as reported by the Pulp and Paper Products Council for the World 19 group of producing countries. This group is estimated to represent 85% of world chemical market pulp capacity.

2005 started with Northern Europe pricing at US \$630 per tonne, and the industry was able to take advantage of a tightening of supply in the first and second quarters of the year to allow pricing to climb into the US \$650 range. This pricing level was not sustainable into the summer months, which is traditionally a slow demand period in the industry. Prices dropped to the US \$585 per tonne level through the summer. A slight resurgence in demand in the fall, coupled with a rapidly strengthening Canadian dollar, allowed producers to push prices back up to US \$600 by the end of the year. This pricing development through the year was similar to that of 2004.

Overall demand for chemical paper grade market pulp through November 2005 was only 1% higher than the same period one year earlier. Most of this gain was attributable to definitional changes in the shipments from some Canadian pulp mills that changed ownership at the end of 2004. Most of the shipments from these mills were not considered market pulp in the past because they shipped pulp to paper mills owned by the same parent company. North American shipments were up by 8% through December, mainly as a result of this definitional change. Western European shipments were down by 2.6%, Japanese shipments were off by 4.1%, and China shipments were unchanged.

During 2005, Canfor faced numerous external disruptions that impacted sales of market pulp. A major challenge to operations was poor and inconsistent delivery of empty railcars to the Mills, particularly during the first and second quarters. This caused the Mills to incur extra costs such as outside warehousing costs, and also caused inventories to rise because sales had to be postponed when product could not be shipped.

Another disruption to the Mills' operations was the withdrawal of container truck services during the strike by the Vancouver Container Truckers Association that began June 27th. Sales were delayed again and the Mills had to carry extra inventory as a result of this job action. On some sales, extra logistics costs had to be incurred in order to satisfy customer shipping requirements. As a result, the strike added approximately US \$0.9 million to Canfor's logistics costs during the third quarter.

In 2005, fuel surcharges implemented by rail and shipping carriers amounted to increases of approximately 12%. These fuel increases resulted in approx US \$1.8 million in incremental shipping costs.

Kraft Paper

During 2005, changes were made in the sales and marketing of Kraft Paper. Premium One Papers was formed with Tolko to market and sell both companies' Kraft Paper. By combining the sales efforts of both companies under Premium One Papers, customers' needs are better served with a wider producer selection and security of supply.

Income Taxes

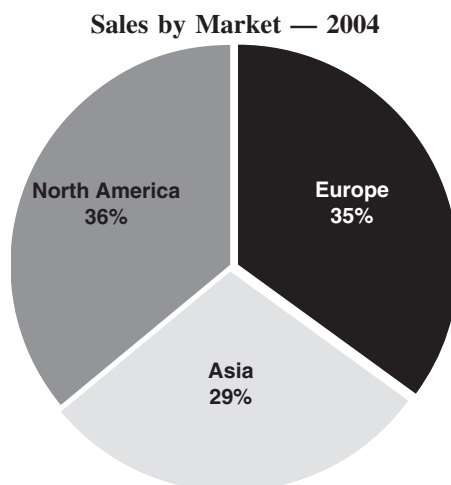
A significant factor when comparing the 2005 and 2004 tax figures is the impact of a 1.5% reduction in the British Columbia corporate tax rate in 2005, which gave rise to a \$3.9 million favourable adjustment to the tax expense in the year, as a result of revaluing the future income tax liability balance.

2004 Compared to 2003

The results for 2004 improved over the previous year, mainly as a result of higher pulp prices and lower conversion costs. However, these factors were partially offset by the strengthening of the Canadian dollar, higher costs for fibre (which are contractually tied to overall pulp prices) and higher energy costs. In addition, when comparing the results to the prior year it should be noted that \$9.8 million of realized gains on forward exchange contracts was included in the 2003 results.

	<u>2004</u>	<u>2003</u>
Exchange Rate and Price Factors:		
Average value of the Canadian dollar against the US dollar	\$0.7683	\$0.7138
Year-end closing value of the Canadian dollar against the US dollar	<u>\$0.8308</u>	<u>\$0.7738</u>
Average pulp price to Northern Europe, in US\$	\$ 624	\$ 527
Average pulp price expressed in Canadian dollars ⁽¹⁾	<u>\$ 812</u>	<u>\$ 738</u>

(1) At the average value of the Canadian dollar for the year, as noted above.



Summarized results of the Pulp Business for 2004 and 2003 are as follows:

	<u>2004</u>	<u>2003</u>
	(unaudited)	
	(millions of dollars)	
Sales	\$849.7	\$790.6
EBITDA	\$ 84.2	\$ 53.5
EBITDA margin	10%	6.8%
Capital expenditures	\$ 60.4	\$ 23.3
Average pulp price — delivered to Northern Europe (US\$ per tonne)	\$ 622	\$ 527
Average pulp price expressed in Canadian dollars	\$ 809	\$ 738
Pulp shipments (thousands of tonnes)	974	999
Pulp production (thousands of tonnes)	990	992
Kraft Paper shipments (thousands of tonnes)	140	121
Kraft Paper production (thousands of tonnes)	134	129

During 2004, the cost to complete the Cogeneration Project was increased by \$36 million, from the original project estimate of \$81 million. These higher costs resulted from initial under-estimating of the cost of certain elements of the project, and from project design modifications and inflated steel prices. In addition to lowering the production costs, the Cogeneration Project will provide environmental benefits to the area by significantly lowering emissions in the Prince George air shed and allowing for the decommissioning of beehive burners at the Polar and Isle Pierre sawmills.

The Cogeneration Project is a joint undertaking with BC Hydro, which is to contribute up to \$46 million under its “Power Smart” program. Under the 15-year agreement, Canfor will install a 48-megawatt turbo-generator and a wood residue handling and conditioning system. Modifications will be made to PGP&P’s boilers and processes to optimize steam production for the generation of electricity. An upgrade of PGP&P’s electrical system will also be completed. At December 31, 2004, \$42.2 million of initial project costs had been capitalized.

Markets

NBSK Pulp

As 2004 began, economic growth in the major economies of the world was steady, but not strong. However, as the year progressed, forecasts of stronger growth materialized. Strong GDP growth in North America and Asia, and somewhat slower growth in Europe, combined to drive solid performance of key sectors of the economy that trigger demand growth in paper products, and hence, market pulp. These sectors include print advertising and a wide range of consumer products that utilize paper.

With economic growth propelling paper demand, and with Asian markets restocking from late 2003 into the second quarter of 2004, pulp orders were very strong until late in the second quarter. The tugboat operators' strike in the Port of Vancouver, and the CN Rail strike, both late in the first quarter, caused a tightening in supply to world markets. The availability of shipping containers for offshore shipments to Asia was constrained on the Canadian west coast because of firm demand for them from China. All of these factors combined to tip the supply and demand balance for market pulp in favour of suppliers early in the first quarter. This condition allowed for aggressive pricing gains.

Pricing in Northern Europe began the year at US \$560 per tonne. By the end of the second quarter this pricing level had risen to US \$670 per tonne. Pricing then decreased through the summer to the US \$590 level, and rebounded by year end to US \$630. Through November, shipments of all chemical market pulp to China have increased by 29% compared to the same period in 2003. It is not unusual for the industry to encounter buying behaviour in this market that impacts monthly volumes up or down by 150,000 tonnes. By building up inventories and then decreasing purchases and utilizing their inventories, this speculative buying can influence prices in a significant manner.

Another factor that impacted the market pulp business in 2004 was the dramatic weakening of the US dollar. Since most market pulp is sold in US dollars on world markets, when the currencies of producing countries strengthen against the US dollar, this tends to both support prices, and to limit the level to which prices will fall when shipments are weak. This was the case in 2004, when pricing dropped through the summer but stopped decreasing at pricing levels far higher than would have been the case at exchange rates of two years ago.

Kraft Paper

Despite a price increase mid year, and improvements in grade mix and quality, Canfor's realized Kraft Paper price declined by 8% compared to 2003 as a result of exchange factors. Approximately 74% of Kraft Paper sales were in US dollars in 2004, and accordingly, the impact of the strengthened Canadian dollar had an adverse effect on revenues and profitability. This reality is driving the Kraft Paper strategy of improving profitability by transitioning to higher-margin high performance papers, particularly bleached papers. Sales of higher-margin bleached papers increased by 41% in 2004.

Operating Performance

Kraft Pulp

Average production for the Mills was 3,160 tonnes per day, compared to the record of 3,196 tonnes per day achieved in 2003. The Mills ran below target performance as a result of several factors including lightning strikes and start-up difficulties following annual maintenance shutdowns. Lightning strikes in early June interrupted operations at all of the Mills, but especially at Northwood, where 3,200 tonnes of production was lost and a generator was destroyed, leading to increased hydro costs for a three-week period. The PGP&P pulp machine did not run for the month of October and the first six days of November due to its major maintenance shutdown, followed by the curtailment for the Cogeneration Project. During the curtailment period only the paper machine ran. A total of 28.4 days were attributed to this curtailment period, which was 6.4 days over budget. Weather delays and asbestos found during the conversion of a recovery boiler at PGP&P were the main reasons for the extended curtailment period.

Conversion costs were down by \$4 per tonne from 2003, which is a significant decrease when factors such as inflation (including rising energy and materials prices) and relative performance to 2003 are considered, and is attributable to focused efforts on cost control and lower maintenance and chemical costs. During 2004 all three Mills successfully implemented a move to an 18 month shutdown cycle compared to the historical annual (12 month) maintenance cycle, which, combined with focused efforts on reliability, risk-based inspections and defect elimination work, were the main factors contributing to the reduction in maintenance costs.

Kraft Paper

As discussed above, the production curtailment at PGP&P for the Cogeneration Project resulted in a reduction of production on the paper machine for 28.4 days. A repulping strategy partially reduced the production loss, but prime production was approximately 2,000 tonnes below the full production rate for the period. Aside from this, production and quality improved in 2004, with prime production (a key performance indicator measured by ‘customer tonnes per day’) increasing by 7%, or 11,000 additional prime tonnes, over the 2003 performance.

Outlook

Markets

Looking forward to 2006, markets are expected to be stronger than in 2005. However, a stronger Canadian dollar could more than offset any pricing gains.

The market is expected to be balanced through the first quarter as Canadian pulp supply is becoming constrained due to mill curtailments resulting from the stronger Canadian dollar and rising costs, particularly fibre costs in eastern Canada. The usual spring maintenance programs at market pulp mills are expected to develop a stronger supply and demand balance into the second quarter, allowing for pricing improvement. By the end of the second quarter, strong pulp production and slowing summer demand will likely lead to another inventory overhang, which will precipitate falling prices into the second half of the year, with seasonal demand in the fall leading to a slight pickup in the latter part of the year. Industry consultants forecast that it is possible the industry will experience further temporary or permanent mill closures of softwood market pulp capacity in 2006, as was the case in 2005. Should this happen, it could have an impact on the supply and demand balance in favour of the remaining producers of softwood market pulp, such as Canfor.

Operations

All Mills are forecasting record performance levels for 2006, with key drivers of improvement being the completion of the Cogeneration Project and the realization of a full year of benefits from the recovery boiler upgrade at Northwood. Costs are expected to decrease as a result of the lower chip prices implemented on July 1, 2005, the Cogeneration Project at its full rate in early 2006 and benefits from the Mills’ asset management initiatives.

Transactions with Related Parties

Transactions with related parties occur at fair market value, unless otherwise noted below.

The Pulp Business purchased wood chips and hog fuel from Canfor sawmills in the amount of \$105.0 million in 2005 (2004 — \$142.7 million; 2003 — \$98.2 million). The Pulp Business purchases wood chips from Lakeland Mills Ltd. and Winton Global Lumber Ltd., in which Canfor owns a one-third interest. During 2005, the Pulp Business purchased \$11.1 million in wood chips from these entities (2004 — \$15.3 million; 2003 — \$10.7 million).

The Pulp Business markets bleached chemi thermo mechanical pulp production from the Canfor Taylor pulp mill for which it received commissions totalling \$3.0 million in 2005 (2004 — \$nil; 2003 — \$nil).

The Pulp Business sold \$2.0 million of wood chips to Fibreco Export Inc. during 2005 (2004 — \$6.7 million; 2003 — nil), before Canfor disposed of its investment in that company in July 2005.

Summary of Financial Position

The following table summarizes the financial position of the Pulp Business as at the end of the years 2005 and 2004 and the cash flow related to the changes in financial position for those years.

	<u>2005</u>	<u>2004</u>
	(millions of dollars, except for ratios)	
Operating working capital	130.6	138.0
Property, plant, equipment and timber	631.1	635.3
Long-term advances and deposits	<u>0.1</u>	<u>0.1</u>
Net assets	<u>\$761.8</u>	<u>\$773.4</u>
Employee future benefits	25.7	21.5
Future income taxes — net	95.3	102.4
Business unit equity	<u>640.8</u>	<u>649.5</u>
Total capitalization	<u>\$761.8</u>	<u>\$773.4</u>
Ratio of current assets to current liabilities	2.7:1	2.6:1
Cash generated from (used in)		
Operating activities	\$ 61.1	\$ 56.2
Financing activities	(18.9)	3.8
Investing activities	<u>(43.0)</u>	<u>(60.1)</u>
Decrease in net cash	<u>\$ (0.8)</u>	<u>\$ (0.1)</u>

Changes in Financial Position

The ratio of current assets to current liabilities of the Pulp Business was 2.7:1 at the end of 2005, increasing from the prior year as a result of lower accounts payable outstanding at the end of 2005.

The changes in the components of these ratios during 2005 are detailed in the Consolidated Cash Flow Statement of the Financial Statements. The more significant changes are discussed below:

Operating Activities

In 2005, the Pulp Business generated cash of \$61.1 million from operations, compared to \$56.2 million in the prior year. EBITDA decreased by \$25.0 million in the year and changes in non-cash working capital generated \$6.7 million in cash, as compared to 2004 when changes in these balances consumed \$12.8 million in cash and non cash accruals for employee benefits decreased by \$1.9 million from 2004.

In 2005, the major changes in non-cash working capital were a \$7.8 million increase in inventories and a \$11.7 million decrease in accounts payable and accrued liabilities. The decrease in accounts payable was mainly as a result of lower wood chip accounts payable in 2005 and accruals relating to the Cogeneration Project in 2004.

Financing Activities

Operating transactions such as sales of products and purchases of products and services are settled in the divisional equity account as they occur; accordingly, for purposes of the cash flow statement, no adjustment is required for changes in the amounts due to or from Canfor. The excess cash flows of the Pulp Business transferred to the central cash management system of Canfor are reported as financing activities. In 2005, financing activities used \$18.9 million in cash, compared to cash generation of \$3.8 million in 2004.

Investing Activities

Cash used in investing activities amounted to \$43.0 million in 2005, which is a \$17.0 million decrease from 2004. The main cash outflows in 2005 were \$51.4 million of capital expenditures, net of \$8.3 million incentive payments received from BC Hydro, for the Cogeneration Project. In 2004, capital expenditures of \$86.0 million were made, mainly comprised of construction costs for the Cogeneration Project net of \$26 million of incentive payments from BC Hydro.

Financial Requirements and Liquidity

Management estimates that in order to maintain the Mills in good working order, future sustaining capital expenditures will average \$33 million per year, before adjustment for inflation, which will be funded out of the operating cash flow of the Pulp Business.

The following table summarizes the financial contractual obligations of the Pulp Business for each of the next five years and thereafter:

Contractual Obligations at December 31, 2005

<u>(Cdn \$ millions)</u>	<u>Total</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>Thereafter</u>
Operating lease obligations	\$4.1	\$2.1	\$1.1	\$0.4	\$0.2	\$0.1	\$0.2

Other contractual obligations not included above are: purchase obligations and contractual obligations in the normal course of business. For example, purchase obligations of a more substantial dollar amount generally relate to the Pulp Business and are subject to “force majeure” clauses. In these instances, actual volumes purchased may vary significantly from contracted amounts depending on the requirements of the Pulp Business in any given year. In 2003, Canfor entered into several long-term agreements with the purchaser of its former BC Chemicals operation to ensure a continued supply of sodium chlorate and processing of the Mills’ soap skimmings into crude tall oil. The minimum commitment under these agreements is for ten years, at \$29.0 million per year for chlorate and \$4.5 million for soap skimming. These commitments will be assumed by the Pulp Business.

In 2003, Canfor entered into the Cogeneration Agreement with BC Hydro to build the Cogeneration Project at PGP&P. Under the Cogeneration Agreement, BC Hydro contributed up to \$45.8 million of the project costs, with Canfor contributing the balance. Incentive payments of \$8.3 million were received from BC Hydro in the first quarter of 2005. Total incentive payments of \$26.0 million were received in 2004. These incentive payments were accounted for as a credit to property, plant and equipment. The Cogeneration Project was completed in the second quarter of 2005 at a net cost to the Pulp Business of \$69.6 million. Canfor has entered into a 15-year commitment with BC Hydro for power displacement in connection with the Cogeneration Project, whereby a proportionate repayment is required should the Cogeneration Project not generate a minimum of 390 gigawatt hours of electricity per year. As required under the Cogeneration Agreement, Canfor has posted a letter of credit in the amount of \$21.8 million as security. These obligations will be assumed by the Pulp Business.

Critical Accounting Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts recorded in the financial statements. Management regularly reviews these estimates and assumptions based on currently available information. While it is reasonably possible that circumstances may arise which cause actual results to differ from these estimates, management does not believe it is likely that any such differences will materially affect the Pulp Business’ financial position.

Employee Future Benefits

The Pulp Business, together with Canfor, has various defined benefit and defined contribution plans providing both pension and other retirement benefits to most of its salaried employees and certain hourly employees. The Pulp Business also provides certain health care benefits and pension bridging benefits to eligible retired employees. The costs and related obligations of the pension and other retirement benefit plans are accrued in accordance with the recommendations of the Canadian Institute of Chartered Accountants (CICA).

The Pulp Business and Canfor use independent actuarial firms to perform actuarial valuations of the fair value of pension and other retirement benefit plan obligations. The application of these recommendations requires judgments regarding certain assumptions that affect the accrued benefit provisions and related expenses, including the discount rate used to calculate the present value of the obligation, the expected rate of return on plan assets, the rate of compensation increase and the assumed health care cost trend rates. Management and Canfor’s Pension Committee evaluate these assumptions annually based on their own experience and the recommendations of its actuarial firms. Changes in these assumptions result in actuarial gains or losses, which are amortized over the average remaining service period of the active employee group covered by the plans.

Future Income Taxes

In accordance with CICA recommendations, the Pulp Business recognizes future income tax assets when it is more likely than not that the future income tax assets will be realized. This assumption is based on management's best estimate of future circumstances and events. If these estimates and assumptions are changed in the future, the value of the future income tax assets could be reduced or increased, resulting in an income tax expense or recovery.

Changes in Accounting Policies

Effective January 1, 2005:

Variable Interest Entities

Effective January 1, 2005, the CICA's new accounting guideline for the consolidation of variable interest entities was adopted. The primary objective of the guideline is to identify and report on entities over which control is achieved through means other than voting rights. The adoption of this guideline did not have a material impact on the Pulp Business financial position or results of operations.

Vendor Rebates

In September 2005, the CICA issued a new abstract, *EIC 156 Accounting by a Vendor for Consideration Given to a Customer (Including a Reseller of the Vendor's Products)*, effective January 1, 2006. The EIC clarifies the measurement and presentation of vendor discounts and volume rebates, which had previously been presented under "costs and expenses". This standard was adopted effective January 1, 2005 and has been incorporated in the 2004 and 2003 comparative results in the financial statements of the Pulp Business.

Effective January 1, 2004:

Impairment Of Long-Lived Assets

The CICA has issued new recommendations, effective January 1, 2004, related to the recognition, measurement and disclosure of impairment of long-lived assets. An asset is tested for recoverability whenever events or changes in circumstances indicate that its carrying value may not be recoverable. An impairment loss is recognized when the carrying value is not recoverable and exceeds its fair value. The Pulp Business regularly reviews its long-lived assets for impairment and did not experience a material impact upon initial adoption of these recommendations.

Shipping And Handling Costs

Prior to January 1, 2004, Canfor, along with other companies in the forest industry, presented sales net of shipping and handling costs. Effective January 1, 2004, the CICA introduced new recommendations for the application of Canadian GAAP, which, among other things, prohibit the use of industry practice and provide guidance on alternate sources to consult with when an issue is not specifically addressed by Canadian GAAP. As a result of applying the new standard, effective January 1, 2004, shipping and handling costs were reclassified to cost of sales. Also, in accordance with CICA Handbook Section 3400, revenue, shipping and handling costs recovered from customers have been included in sales. Prior periods have been reclassified for comparability.

Risks and Uncertainties

Most companies in the forest industry in North America, including the Pulp Business, face similar business risks and uncertainties. See "Risk Factors" in the Information Circular for a description of these risks.

The future impact of these various uncertainties and potential risks cannot be quantified or predicted. However, the Pulp Business does not foresee unmanageable adverse effects on its business operations from, and believes that it is well positioned to deal with, such matters as may arise.

MANAGEMENT, TRUSTEES AND DIRECTORS

Trustees and Officers of the Fund

Stan Bracken-Horrocks, Don Campbell and Charles Jago are the initial Fund Trustees, all of whom are independent Fund Trustees and also serve as independent directors of the General Partner. See “— Directors and Executive Officers of the General Partner” below. Fund Trustees may acquire Fund Units on the open market following the Spinout.

Governance of the Fund

The Fund Trustees will be directly responsible for developing the Fund’s approach to governance issues, filling vacancies among the Fund Trustees and periodically reviewing the composition and effectiveness of the Fund Trustees individually and as a group.

The Fund Trustees will also be responsible for adopting and periodically reviewing and updating the Fund’s written disclosure policy. This policy, among other things:

- articulates the legal obligations of the Fund, its affiliates and their respective trustees, directors, officers and employees with respect to confidential Fund information;
- identifies spokespersons of the Fund who are generally the only persons authorized to communicate with third parties such as analysts, media and investors;
- provides guidelines on the disclosure of forward-looking information;
- requires advance review by senior representatives of any disclosure of financial information to seek to ensure the information is not material, and to seek to ensure that selective disclosure of material information is not permitted, and that if it occurs, a news release is issued promptly; and
- establishes “black-out” periods immediately prior to and following the disclosure of quarterly and annual financial results and immediately prior to the disclosure of certain material changes during which the Fund, its affiliates and their respective trustees, directors, officers and employees may not purchase or sell Fund Units.

The Fund and the Partnership have each adopted a Code of Business Conduct similar to that of Canfor.

Audit Committee of the Fund

The audit committee of the Fund will be comprised of all of the Fund Trustees and will be responsible for accounting and financial reporting practices and procedures, adequacy of internal accounting and financial reporting controls and procedures, and quality and integrity of financial statements of the Fund. In addition, the audit committee will be responsible for directing the auditors’ examination into specific areas.

Trustees of the Trust

Stan Bracken-Horrocks, Don Campbell and Charles Jago are the initial Trust Trustees. The Trust Trustees will not receive any compensation for serving as Trust Trustees.

Directors and Executive Officers of the General Partner

The Partnership and the Pulp Business will be managed by the General Partner. The following table sets out who will serve as directors of the General Partner, including each person's name, municipality of residence and principal occupation.

<u>Name and Municipality of Residence</u>	<u>Position with General Partner</u>	<u>Principal Occupation</u>
Peter J.G. Bentley, O.C., LL.D. ⁽³⁾ Vancouver, British Columbia	Director Chairman	Chairman of the Board of Canfor Corporation
Stan Bracken-Horrocks ⁽¹⁾⁽³⁾ Kelowna, British Columbia	Director	Corporate Director
Donald Campbell ⁽¹⁾⁽²⁾ Montreal, Québec	Director	Group President, CAE Inc.
Charles Jago ⁽²⁾⁽³⁾ Prince George, British Columbia	Director	President, University of Northern British Columbia
Peter Lusztig ⁽¹⁾⁽²⁾ Vancouver, British Columbia	Director	Corporate Director
Paul A. Richards West Vancouver, British Columbia	Director President, CEO	Vice-President, Pulp and Paper of Canfor
James A. Shepherd Surrey, British Columbia	Director	President and CEO of Canfor

- (1) Member of Audit Committee.
- (2) Member of Governance and Nominating Committee.
- (3) Member of Human Resources Committee.

The term of office for each of the directors will expire at the time of the next annual meeting of the shareholders of the General Partner, unless earlier terminated.

The following are the executive officers of the Partnership, including each person's name and municipality of residence.

<u>Name and Municipality of Residence</u>	<u>Position with General Partner</u>
Paul A. Richards West Vancouver, British Columbia	President and CEO
Thomas Sitar Vancouver, British Columbia	Chief Financial Officer
Joe Nemeth Langley, British Columbia	Vice-President, Pulp and Paper Sales and Marketing

Biographies

Set forth below are brief profiles of each of the Fund Trustees, Trust Trustees, directors and executive officers of the General Partner. Each of the Fund Trustees, Trust Trustees, directors and executive officers has been engaged for more than five years in his present principal occupation or in other capacities with the organization in which the person currently holds his principal occupation, except as set forth below.

Directors and Trustees

Peter J.G. Bentley, O.C., LL.D. has served on Board of Canfor since 1966. Mr. Bentley is Chairman of the Board of Directors of Canfor and of Canfor's principal subsidiary, 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 Canfor, 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 on July 25, 1997 and relinquished the position of President and CEO of Canfor 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 Chancellor of the University of Northern British Columbia. Mr. Bentley holds an Honorary Doctorate of Laws degree from the University of British Columbia.

Stan 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 of Business Development Corporation, director and treasurer of the Vancouver Police Foundation and a director of G.F. Strong Rehabilitation Centre.

Donald Campbell is the Group President of CAE Inc., a position he has held since May 2002. Mr. Campbell joined CAE in September 2000 and served as Executive Vice President. 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 currently is a director of Toyota Canada Inc., Rutter Inc. and the Perimeter Institute. 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.

Charles Jago was appointed President of the University of Northern British Columbia, in 1995, in the institution's second full year of operations. 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, and the Office of Partnerships for Advanced Skills (OPAS). He has served as Chair of the Council of Western University Presidents and The University President's Council of British Columbia and the Northern BC United Way. In the late 1990s he was one of three commissioners of the Nechako Environmental Enhancement Fund, formed to resolve long-standing social and environmental issues related to the Nechako River. He is also a member of the Board of Initiatives Prince George and of Partnerships BC Inc. Dr. Jago received his BA in Honors English and History from the University of Western Ontario in London, Ontario, and graduated as the Honors gold medalist from Huron College (an affiliated college of the UWO) and with a Commonwealth Scholarship for graduate study at Cambridge University in Britain. In 1969 he graduated from Cambridge with a PhD in History. Dr. Jago was awarded the Queen's Jubilee Medal for community service in 2003. He received the Order of Canada for his 25 years of outstanding achievement and service to education in June, 2005.

Peter Lusztig is Dean Emeritus, Faculty of Commerce and Business Administration, 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. He is also a Trustee of the Health Benefit Trust (B.C.). Mr. Lusztig received his Commerce Degree from the University of British Columbia, his Masters of Business Administration from the University of Western Ontario and his Doctorate Degree from Stanford University.

Paul A. Richards is the President and Chief Executive Officer of the General Partner and holds 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, he 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 also a director of PAPRICAN. Mr. Richards received a Bachelor of Chemical Engineering degree from the Technical University of Nova Scotia.

James A. Shepherd is currently President and Chief Executive Officer of Canfor. Mr. Shepherd was appointed President of Canfor on April 1, 2004, and C.E.O. of Canfor on April 30, 2004. From February 1999 to July 2000, Mr. Shepherd was the President and Chief Operating Officer of Slocan Forest Products Ltd. and was appointed Chief Executive Officer of Slocan in July 2000. Prior to this appointment, he was the President and Chief Operating Officer of Crestbrook Forest Industries Ltd. and President of Finlay Forest Industries Limited. Mr. Shepherd received his Mechanical Engineering degree from Queen's University. Mr. Shepherd is a director of Council of Forest Industries, the B.C. Progress Board, the B.C. Forest Safety Council and University of Northern British Columbia and Chairman of the Forest Products Association of Canada.

Executive Officers

Joe Nemeth is the Vice President, Pulp and Paper Sales and Marketing of the General Partner and holds the position of Vice President, Pulp & Paper Marketing of Canfor since January, 2003. Mr. Nemeth's career spans a broad range of Forest Industry experience. This includes Woodlands, Solid Wood Products and Pulp & Paper sectors in both production and marketing disciplines. Prior to joining Canfor, Mr. Nemeth spent 14 years with Fletcher Challenge Canada (now Norske Skog) 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 (Honours) degree from the University of British Columbia.

Thomas Sitar is the Chief Financial Officer of the General Partner. Prior to that, he was Chief Financial Officer of Gryphon Gold Corporation from November 2004 to May 2006. From 1998 to 2003, he was Vice President, Finance of Weldwood of Canada Limited. Mr. Sitar has 25 years' experience in the financial management of public companies, including his position as Treasurer of Weldwood when it was a Toronto Stock Exchange-listed company. He has a Bachelor of Commerce from the University of Windsor and is a member of the Institute of Chartered Accountants of B.C.

Committees of the Board of Directors of the General Partner

The Board of Directors of the General Partner has an Audit Committee, a Nominating Committee and a Compensation Committee.

Audit Committee

Stan Bracken-Horrocks, Donald Campbell and Peter Lusztig are members of the Audit Committee, with Peter Bentley participating in an ex-officio capacity. The purpose of the Audit Committee is to assist the board of directors in fulfilling its responsibilities of oversight and supervision of the accounting and financial reporting practices and procedures; the adequacy of internal accounting and financial reporting controls and procedures; and the quality and integrity of financial statements of the Partnership. In addition, the Audit Committee will be responsible for directing the auditors' examination into specific areas of the Partnership.

Nominating Committee

Donald Campbell, Charles Jago and Peter Lusztig are members of the Nominating Committee, with Peter Bentley participating in an ex-officio capacity. The Nominating Committee is responsible for making recommendations to the board of directors in respect of corporate governance principles and the roles of the board of directors and its committees, and for ensuring that the Partnership's governance practices comply with regulatory requirements and that disclosures are made as required. In addition, the committee is responsible for proposing candidates for election to the board of directors of the General Partner and the boards of trustees of the Fund and the Trust.

Compensation Committee

Peter Bentley, Stan Bracken-Horrocks and Charles Jago are members of the Compensation Committee. The purpose of the Compensation Committee is to make recommendations to the board of directors on, among other things, executive compensation, including the compensation of the Partnership's President and Chief Executive Officer, and to review other aspects of executive compensation. The committee also assists the board of directors in complying with securities laws relating to the disclosure of executive compensation.

Independent Committee Process

Any material commercial transaction that the Partnership or any subsidiary proposes to enter into after the Effective Date with Canfor or any of its affiliates and any material amendment of the terms of any material contract between the Partnership or any subsidiary, on the one hand, and Canfor or any of its affiliates, on the other hand, entered into prior to the Effective Date will be considered and approved by an Independent Committee comprised of the independent directors of the General Partner who are not directors, officers or employees of Canfor or any of its affiliates other than the General Partner.

Executive Compensation

Pension Plans

The executive officers of the Partnership will be members of the Canfor's defined benefit pension plans which provide retirement benefits determined primarily by: (i) highest average pensionable earnings which includes regular salary and 50% of any bonuses and lump sum performance awards in a highest period of three consecutive years during the final ten years of employment; and (ii) years of service. The estimated annual benefits payable upon retirement under those plans are in accordance with the following table.

Pension Plan Table

Remuneration (\$)	Years of Service (not limited to 35 years)				
	15	20	25	30	35
250,000	70,797	94,395	117,994	141,593	165,192
300,000	85,797	114,395	142,395	171,593	200,192
400,000	115,797	154,395	192,994	231,593	270,192
500,000	145,797	194,395	242,994	291,593	340,192
600,000	175,797	234,395	292,994	351,593	410,192
700,000	205,797	274,395	342,994	411,593	480,192
800,000	235,797	314,395	392,994	471,593	550,192
900,000	265,797	354,395	442,994	531,593	620,192
1,000,000.....	295,797	394,395	492,994	591,593	690,192
1,100,000.....	325,797	434,395	542,994	651,593	760,192
1,200,000.....	355,797	474,395	592,994	711,593	830,192
1,300,000.....	385,797	514,395	642,994	771,593	900,192
1,400,000.....	415,797	554,395	692,994	831,593	970,192
1,500,000.....	445,797	594,395	742,994	891,593	1,040,192

The earnings upon which benefits under the plans will be based are those shown in the columns headed "Salary" and "Bonus" in the Summary Compensation Table. Benefits are computed on the basis of a straight life annuity, guaranteed for a minimum of five years, and are subject to deductions for personal income tax.

Annual Incentive Plan

The Partnership intends to establish a short term incentive plan known as the Canfor Pulp Salaried Incentive Plan ("PSIP"). The PSIP will apply to all salaried employees of the Partnership (including the CEO) and has two components: Partnership performance and individual performance. Partnership performance is measured by return on net assets ("RONA") for the Partnership. A minimum level of RONA must be achieved before a payout will occur. Target RONA performance levels are established annually taking into account the Partnership's cost of capital and actual historical RONA levels. Partnership performance relates also to the performance of the Partnership as measured against specific financial, operational and organization goals, which are established as part of the annual planning process. Individual performance is measured against agreed upon goals and objectives which are also established as a part of the annual planning process. These goals and objectives may relate to health and safety, training and development or individual performance goals. Award opportunity will vary by level within the Partnership. For senior executives, performance will also be measured in relation to the performance of competitors in the pulp and paper industry. Market competitive awards will range from 10% to 55% of base salary.

Long-Term Incentive Plan

The Partnership intends to create and implement a long term incentive plan ("LTIP") which will apply to designated senior executives following the Spinout. The LTIP will be based on a market-based plan and developed in consultation with an independent nationally-recognized human resources firm and approved by the Compensation Committee and the board of directors of the General Partner.

Employee Unit Purchase Plan

After the Effective Date, the Fund Trustees intend to establish a Fund Unit purchase plan (the ‘‘**Employee Purchase Plan**’’) in which all employees of the Partnership will be eligible to participate. The Employee Purchase Plan will be an employee profit sharing plan in accordance with section 144 of the Tax Act.

The purpose of the Employee Purchase Plan is to develop an interest by employees of the Partnership in the growth and development of the Pulp Business by providing them with an opportunity to participate in the ownership of the Pulp Business through the purchase of outstanding Fund Units. All regular employees of the Partnership will be eligible to participate in the Employee Purchase Plan upon the completion of one year of employment with the Partnership.

Enrolment in the Employee Purchase Plan will be voluntary. Each participating employee will be entitled to contribute as a basic contribution a minimum of 1% and a maximum of 5% of his or her basic wages or salary to the Employee Purchase Plan and may make a supplementary contribution of up to an additional 5% of such wages or salary. The Partnership will make a basic contribution in each month in an amount equal to 30% of each participant’s basic contribution and will also pay the cost of brokerage and commissions.

All Fund Units purchased under the Employee Purchase Plan will be outstanding Fund Units purchased in the market or by private purchase by the trustee appointed from time to time for the Employee Purchase Plan (the ‘‘**Plan Trustee**’’). No Fund Units will be issued from treasury under the Employee Purchase Plan. All distributions of Distributable Cash received by the Plan Trustee in respect of Fund Units held in the Employee Purchase Plan will be reinvested by the Trustee in additional Fund Units.

Implementation of the Employee Purchase Plan will require ratification by the Unitholders at the first annual meeting of Unitholders held after the Effective Date.

Compensation of Directors and Trustees

Each non-executive director (or Fund Trustee, in the event that such Fund Trustee is not a director) who is neither employed by the Partnership nor appointed by Canfor will be entitled to receive a basic annual retainer of \$20,000 payable in quarterly instalments for services as a director or Fund Trustee, as the case may be. Directors will also be paid an additional annual retainer of \$3,000 payable in quarterly instalments in respect of each board committee upon which they sit and an additional annual retainer of \$3,000 payable in quarterly instalments if chairing a board committee. In addition, directors will receive a fee of \$1,000 for each day of meetings of the board or a board committee.

No additional compensation will be paid to Fund Trustees who are also Directors.

All non-executive directors of the General Partner will be reimbursed for travel and other out-of-pocket expenses incurred in attending board or board committee meetings.

Insurance Coverage and Indemnification

The Fund, the Trust and the Partnership will obtain or cause to be obtained a policy of insurance for the Fund Trustees and officers of the Fund, the Trustees and officers of the Trust and the directors and officers of the Partnership. The policy will contain a limit of liability applicable to the insured trustees, directors and officers under the policy, inclusive of defence costs. Under the policy, each entity will have reimbursement coverage to the extent that it has indemnified the trustees, directors and officers in excess of a deductible for each loss. The policy will include securities claims coverage, insuring against any legal obligation to pay on account of any securities claims brought. The total limit of liability will be shared between the Fund, the Trust, the Partnership and their respective trustees, directors and officers, so that the limit of liability will not be exclusive to any one of the entities or their respective trustees, directors and officers.

The Fund Declaration and the Trust Declaration provide for the indemnification of their respective trustees and officers from and against liability and costs in respect of any action or suit against them in connection with the execution of their duties as trustees and officers, subject to certain customary limitations. The by-laws of the General Partner also provide for the indemnification of its directors and officers from and against liability and costs in respect of any action or suit against them in connection with the execution of their duties as directors and officers, subject to certain customary limitations.

DESCRIPTION OF THE FUND AND FUND UNITS

Fund Declaration

The Fund is an unincorporated, open-ended trust established under the laws of the Province of Ontario by the Fund Declaration. It is intended that the Fund will qualify as a “mutual fund trust” for the purposes of the Tax Act. The following is a summary of the material attributes and characteristics of the Fund Units and certain provisions of the Fund Declaration, which summary is not intended to be complete. Reference is made to the Fund Declaration for a complete description of the Fund Units and the full text of its provisions.

Activities of the Fund

The Fund Declaration provides that the Fund’s operations and activities are restricted to, among other things:

- (a) acquiring, investing in, transferring, disposing of and otherwise dealing with securities, including those of the Trust and the Partnership;
- (b) paying the expenses and liabilities of the Fund, paying amounts owing by the Fund in connection with the redemption of any Fund Units or other securities of the Fund and making distributions to Unitholders and temporarily holding cash in interest bearing accounts, short-term government debt or short-term investment grade corporate debt for such purposes;
- (c) issuing Fund Units and other securities of the Fund (including warrants, options or other rights to acquire Fund Units or other securities of the Fund pursuant to the Fund Declaration), including for the purposes of:
 - (i) obtaining funds to conduct the activities described in paragraph (a) above, including raising funds for acquisitions or investments;
 - (ii) implementing Unitholder rights plans, distribution reinvestment plans, distribution reinvestment and Fund Unit purchase plans, incentive option plans or other compensation plans, if any, established by the Fund;
 - (iii) making non-cash distributions to Unitholders as contemplated by the Fund Declaration, including pursuant to distribution reinvestment plans, if any, established by the Fund; and
- (d) giving effect to the exercise of the rights of exchange pursuant to the Exchange Agreement;
- (d) issuing debt securities (including debt securities convertible into, or exchangeable for, Fund Units or other securities of the Fund) or otherwise borrowing and mortgaging, pledging, charging, granting a security interest in or otherwise encumbering any of its assets as security, provided that any such mortgage, pledge, charge, security interest or other encumbrance in the applicable Trust Units and Trust Notes will be automatically released upon a redemption of Fund Units if the redemption price is to be satisfied by way of an *in specie* redemption under the terms of the Fund Declaration;
- (e) guaranteeing (as guarantor, surety or co-principal obligor) the payment of any indebtedness, liability or obligation of any wholly-owned affiliate of the Fund or the performance of any obligation of any wholly-owned affiliate of the Fund, and mortgaging, pledging, charging, granting a security interest in or otherwise encumbering all or any part of the assets of the Fund, including securities issued by the Trust and the Partnership, as the case may be, as security for such guarantee, and, where considered appropriate, postponing or subordinating its rights under the Trust Notes to other indebtedness, provided that any such mortgage, pledge, charge, security interest or other encumbrance in the applicable Trust Units and Trust Notes will be automatically released upon a redemption of Fund Units if the redemption price is to be satisfied by way of an *in specie* redemption under the terms of the Fund Declaration;
- (f) disposing of all or any part of the assets of the Fund;
- (g) issuing or redeeming rights and Fund Units pursuant to any Unitholder rights plan adopted by the Fund;
- (h) repurchasing securities issued by the Fund, including Fund Units, subject to the provisions of the Fund Declaration and applicable law;
- (i) satisfying the obligations, liabilities or indebtedness of the Fund;
- (j) undertaking all activities as contemplated under “The Spinout — Transfer of the Pulp Business and Related Agreements” including the entering into of certain agreements (see “Material Contracts”); and

- (k) undertaking all other usual and customary actions for the conduct of the activities of the Fund in the ordinary course as are approved by the Fund Trustees from time to time, or as are contemplated by the Fund Declaration,

provided that the Fund shall not undertake any activity, take any action or make or retain any investment which would result (or fail to take any action where such failure would result) in the Fund not being considered a “mutual fund trust” for purposes of the Tax Act. The Fund Declaration contains certain restrictions on the issuance and transfer of Fund Units to Non-Residents. See “— Limitation on Non-Resident Ownership” below.

As at the date of this Information Circular, the Fund does not intend to hold securities other than securities of the Trust or securities held in connection with its short-term cash management.

Fund Units

An unlimited number of Fund Units may be issued under the Fund Declaration. Each Fund Unit will be transferable and represents an equal undivided beneficial interest in any distributions from the Fund, whether of net income, net realized capital gains (other than net realized capital gains allocated and distributed to redeeming Unitholders) or other amounts, and in any net assets of the Fund in the event of termination or winding-up of the Fund. All Fund Units are of the same class with equal rights and privileges. The Fund Units issued in connection with the Spinout will not be subject to future calls or assessments on account of their subscription price and will entitle the holder thereof to one vote for each Fund Unit held at all meetings of Unitholders (except as may be required by law, including securities laws or stock exchange rules). No Unitholder has or is deemed to have any right of ownership in any of the assets of the Fund, nor shall a Unitholder be entitled to interfere with or give any direction to the Fund Trustees. Except as set out under “— Redemption Right” below, the Fund Units have no conversion, retraction, redemption or pre-emptive rights. As of the Effective Date, no person shall be entitled, as a matter of right, to subscribe for or purchase any Fund Units from the Fund, other than as provided for in the Exchange Agreement and the Shareholders’ Agreement.

The Fund Units are not “deposits” within the meaning of the *Canada Deposit Insurance Corporation Act* (Canada) and are not insured under the provisions of that act or any other legislation. Furthermore, the Fund is not a trust company and is not registered under any trust and loan company legislation, as it does not carry on or intend to carry on the business of a trust company.

Issuance of Fund Units

The Fund Declaration provides that the Fund Units or rights, warrants or options to acquire Fund Units may be issued at those times, to those persons, for that consideration and on the terms and conditions that the Fund Trustees determine. Fund Units may be issued pursuant to any Unitholder rights plan or any incentive or other compensation plan established by the Fund, or in satisfaction of any non-cash distribution of the Fund to Unitholders on a pro rata basis to the extent that the Fund does not have Distributable Cash to fund such distributions. The Fund Declaration also provides that, immediately after any pro rata distribution of Fund Units to all Unitholders in satisfaction of any non-cash distribution, the number of outstanding Fund Units will be consolidated so that each Unitholder will hold after the consolidation the same number of Fund Units as the Unitholder held before the non-cash distribution (except where tax is required to be withheld in respect of the Unitholder’s share of the distribution). Each certificate, if any, representing a number of Fund Units prior to the non-cash distribution is deemed to represent the same number of Fund Units after the non-cash distribution and the consolidation (except where tax is required to be withheld in respect of the Unitholder’s share of the distribution). Fractions of Fund Units will not be issued. The Fund Declaration contains certain restrictions on the issuance and transfer of Fund Units to Non-Residents. See “— Limitation on Non-Resident Ownership” below.

Trustees

The Fund Declaration provides that the Fund will have a minimum of three trustees and a maximum of seven trustees, as fixed from time to time by the Fund Trustees provided that, until otherwise determined, the number of Fund Trustees is three. Until the close of the first annual meeting of Unitholders, the initial Fund Trustees are Stan Bracken-Horrocks, Don Campbell and Charles Jago. The Fund Trustees will be elected at each annual meeting of Unitholders to hold office for a term expiring at the close of the next annual meeting of Unitholders or until their successors are elected or appointed. The Fund Declaration requires that at least a majority of the Fund Trustees be Canadian citizens resident in Canada.

The Fund Declaration provides that, subject to its terms and conditions, the Fund Trustees may, in respect of the trust assets and the investments and affairs of the Fund, exercise any and all rights, powers and privileges that could be exercised by a legal and beneficial owner thereof. The role of the Fund Trustees includes, among other things:

- supervising the activities and managing the investments and affairs of the Fund;
- maintaining records and providing reports to Unitholders;
- seeking to ensure that the ownership restrictions in the Fund Declaration are met;
- declaring and effecting payments of distributions to Unitholders;
- acting for, voting on behalf of and representing the Fund as a holder of Trust Units and Trust Notes; and
- voting in favour of the Fund's nominees to serve as Trust Trustees and directors of the Partnership.

The Fund Trustees will have the right, subject to applicable stock exchange requirements, to approve the adoption of a Unitholder rights plan if the Fund Trustees determine in good faith that such action is appropriate.

A Fund Trustee may resign upon 30 days' written notice to the Fund unless such resignation would cause the number of remaining Fund Trustees to be less than three, and a Fund Trustee (other than the trustee appointed by Canfor) may be removed by a resolution passed by a majority of the votes cast by Unitholders at a meeting called for that purpose or by a written resolution signed by the holders of not less than 100% of the Fund Units entitled to vote on such resolution. The vacancy created by the removal may be filled at the same meeting, failing which it may be filled by a quorum of the remaining Fund Trustees. The term of office of a Fund Trustee will also terminate and a vacancy will occur in the event that the Fund Trustee dies, is declared bankrupt or otherwise no longer satisfies the qualification requirements provided in the Fund Declaration. Notwithstanding the foregoing, resignation of a Fund Trustee will not be accepted and termination due to bankruptcy or lack of qualification will not occur if such resignation or termination would result in the majority of Fund Trustees at any time not consisting of persons who are Canadian citizens resident in Canada.

Fund Trustees shall be paid such remuneration for their services as the Human Resources Committee of the Partnership may determine from time to time. Until otherwise determined, such compensation shall be \$20,000 per year for each Fund Trustee, provided that such compensation shall be reduced by the full amount, if any, received by a Fund Trustee for serving on the board of directors of the Partnership. The Fund Trustees shall also be entitled to be reimbursed for reasonable travelling and other expenses properly incurred by them in attending meetings of the Fund Trustees or any committee thereof or in connection with their services as Fund Trustees.

A quorum of the Fund Trustees, being a majority of the Fund Trustees then holding office (provided that a majority of such quorum consists of persons who are Canadian citizens resident in Canada), may fill a vacancy among the Fund Trustees, other than a vacancy which Canfor is entitled to fill as a result of the resignation or removal of a trustee appointed by Canfor or a vacancy resulting from a failure of the Unitholders to elect the required number of trustees. A vacancy among the Fund Trustees resulting from the resignation or removal of the Fund Trustee appointed by Canfor may be filled by an appointment by Canfor. In the absence of a quorum of Fund Trustees, or if the vacancy has arisen from a failure of the Unitholders to elect the required number of Fund Trustees, the Fund Trustees will be required to promptly call a special meeting of the Unitholders to fill the vacancy. If the Fund Trustees fail to call that meeting or if there are no Fund Trustees then in office, any Unitholder may call the meeting. The Fund Trustees may, between annual meetings of Unitholders, appoint one or more additional Fund Trustees to serve until the next annual meeting of Unitholders, but the number of additional Fund Trustees will not at any time exceed one third of the number of Fund Trustees who held office at the expiration of the immediately preceding annual meeting of Unitholders.

The Fund Declaration provides that the Fund Trustees will act honestly and in good faith with a view to the best interests of the Fund and in connection with that duty will exercise the degree of care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. The duties and standard of care of the Fund Trustees are intended to be similar to, and not any greater than, those imposed on a director of a corporation governed by the CBCA. The Fund Declaration provides that each Fund Trustee will be entitled to indemnification and reimbursement from the Fund out of the assets of the Fund in respect of the exercise of the Fund Trustee's powers, and the discharge of the Fund Trustee's duties, provided that the Fund Trustee acted honestly and in good faith with a view to the best interests of the Fund, and in the case of a criminal or administrative action or proceeding that is enforced by a monetary penalty, where the Fund Trustee had reasonable grounds for believing that his or her conduct was lawful.

Except as prohibited by law, the Fund Trustees may appoint from their number one or more committees of Trustees and delegate such authority of the Fund Trustees as the Fund Trustees may deem necessary or desirable to effect the administration of the duties of the Fund Trustees under the Fund Declaration.

Distributions

The Fund intends to make distributions of its 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 will be 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. The initial cash distribution for the period from the Effective Date to July 31, 2006, anticipated to be approximately \$0.10 to \$0.11 per Fund Unit, is expected to be paid on or before August 15, 2006, (assuming that the Effective Date occurs on July 1, 2006), substantially all of which distribution is expected to be considered income of the Unitholder for Canadian income tax purposes. See "The Spinout — Certain Canadian Federal Income Tax Considerations".

The distribution payable in respect of the month ending December 31 in each calendar year will be required to include such amount in respect of the taxable income and net realized capital gains, if any, of the Fund for such calendar year as is necessary to ensure that the Fund will not be liable to ordinary income taxes under the Tax Act in such year, and will also be required to include the non-taxable portion of any capital gains realized by the Fund in such year.

Any income of the Fund which is applied to any cash redemptions of Fund Units or is otherwise unavailable for cash distribution will, to the extent necessary to ensure that the Fund does not on an annual basis have an income tax liability under Part I of the Tax Act, be required to be distributed to Unitholders in the form of additional Fund Units. Those additional Fund Units are required to be issued under exemptions under applicable securities laws, discretionary exemptions granted by applicable securities regulatory authorities or a prospectus or similar filing.

Unitholders who are Non-Residents may be subject to withholding taxes payable in respect of distributions by the Fund, whether those distributions are in the form of cash or additional Fund Units. Non-Residents should consult their own tax advisors regarding the tax consequences of investing in the Fund Units.

Redemption Right

Fund Units are redeemable at any time on demand by the holders thereof upon delivery to the Fund of a duly completed and properly executed irrevocable notice requesting redemption in a form approved by the Fund Trustees. As the Fund Units will be issued on a non-certificated basis, a Unitholder who wishes to exercise its redemption right will be required to obtain a redemption notice form from its investment dealer, who will be required to deliver the completed redemption notice form to the Fund at its head office and to CDS. Upon receipt of the redemption notice by the Fund, all rights with respect to the Fund Units tendered for redemption, including the right to receive any distributions which are declared payable to Unitholders of record on a date subsequent to the date of receipt by the Fund of such notice, will be surrendered and the holder will be entitled to receive a price per Fund Unit (the "**Redemption Price**") equal to the lesser of:

- 90% of the "market price" of the Fund Units as of the date on which the Fund Units are surrendered for redemption (the "**Redemption Date**"); and
- 100% of the "closing market price" on the Redemption Date.

For purposes of this calculation, the "market price" of a Fund Unit as at a specified date, will be:

- (i) an amount equal to the weighted average trading price of a Fund Unit on the principal stock exchange or securities market on which the Fund Units are listed or quoted for trading during the period of ten consecutive trading days ending on and including such date;
- (ii) an amount equal to the weighted average of the closing prices of a Fund Unit on the principal stock exchange or securities market on which the Fund Units are listed or quoted for trading during the period of ten consecutive trading days ending on and including such date, if the applicable stock exchange or securities market does not provide information necessary to compute a weighted average trading price; or

- (iii) if there was trading on the applicable stock exchange or securities market for fewer than five of the ten trading days, then an amount equal to the weighted average of the following prices established for each of the ten consecutive trading days ending on and including such date: the simple average of the last bid and last asking prices of the Fund Units for each day on which there was no trading; the closing price of the Fund Units for each day that there was trading if the stock exchange or securities market provides a closing price; and the simple average of the highest and lowest prices of the Fund Units for each day that there was trading, if the market provides only the highest and lowest prices of Fund Units traded on a particular day.

The “closing market price” of a Fund Unit for the purpose of the 100% test above, at any date, will be:

- (i) an amount equal to the weighted average trading price of a Fund Unit on the principal stock exchange or securities market on which the Fund Units are listed or quoted for trading on the specified date if the principal stock exchange or securities market provides information necessary to compute a weighted average trading price of the Fund Units on the specified date;
- (ii) an amount equal to the closing price of a Fund Unit on the principal stock exchange or securities market, if there was a trade on the specified date and the principal exchange or market provides only a closing price of the Fund Units on the specified date;
- (iii) an amount equal to the simple average of the highest and lowest prices of the Fund Units on the principal stock exchange or securities market, if there was trading on the specified date and the principal stock exchange or securities market provides only the highest and lowest trading prices of the Fund Units on the specified date; or
- (iv) the simple average of the last bid and last asking prices of the Fund Units on the principal stock exchange or securities market, if there was no trading on the specified date.

The total Redemption Price payable by the Fund in respect of all Fund Units surrendered for redemption during any calendar month will be satisfied by way of a cash payment no later than the last day of the month following the month in which the Fund Units were tendered for redemption, provided that the entitlement of Unitholders to receive cash upon the redemption of their Fund Units will be suspended if:

- the total amount payable by the Fund in respect of those Fund Units and all other Fund Units tendered for redemption in the same calendar month exceeds \$50,000, provided that the Fund Trustees may, in their sole discretion, waive this limitation in respect of all Fund Units tendered for redemption in any calendar month;
- at the time the Fund Units are tendered for redemption, the outstanding Fund Units are not listed for trading or quoted on any stock exchange or securities market which the Fund Trustees consider, in their sole discretion, provides representative fair market value prices for the Fund Units; or
- the normal trading of Fund Units is suspended or halted on any stock exchange on which the Fund Units are listed (or, if not listed on a stock exchange, on any securities market on which the Fund Units are quoted for trading) on the Redemption Date or for more than five trading days during the ten day trading period ending on the Redemption Date.

If a Unitholder is not entitled to receive cash upon the redemption of Fund Units as a result of one or more of the foregoing limitations, then the Redemption Price per Fund Unit tendered for redemption will, subject to the receipt of any applicable regulatory approvals, be paid and satisfied by way of a distribution in specie. In such circumstances, Trust Units of a value equal to 20% of the Redemption Price will be redeemed by the Trust in consideration for the issuance of Series 2 Trust Notes and Series 1 Trust Notes of a value equal to 80% of the Redemption Price will be redeemed by the Trust in consideration of the issuance to the Fund of Series 3 Trust Notes. The Series 2 Trust Notes and Series 3 Trust Notes will then be distributed in satisfaction of the Redemption Price. No Series 2 Trust Notes or Series 3 Trust Notes will be distributed in integral multiples of less than \$10.00 and, where the number of securities of the Trust to be received by a Unitholder includes a fraction or a multiple less than \$10.00, that number shall be rounded to the next lowest whole number or integral multiple of \$10.00 and the balance settled in cash. The Fund will be entitled to all interest paid or accrued and unpaid on the Trust Notes and the distributions paid on the Trust Units on or before the date of the distribution in specie. Where the Fund makes a distribution in specie on the redemption of Fund Units of a Unitholder, the Fund currently intends to designate and treat as payable to that Unitholder any income or capital gain realized by the Fund as a result of the redemption of securities of the Trust and the distribution of securities to the Unitholder. See “The Spinout — Certain Canadian Federal Income Tax Considerations.”

It is anticipated that the redemption right described above will not be the primary mechanism for Unitholders to dispose of their Fund Units. Series 2 Trust Notes and Series 3 Trust Notes distributed in specie to Unitholders in connection with a redemption will not be listed on any stock exchange and no securities market is expected to develop in Series 2 Trust Notes and Series 3 Trust Notes, and they will be subject to an indefinite “hold period” or other resale restrictions under applicable securities laws. Series 2 Trust Notes and Series 3 Trust Notes so distributed will not be qualified investments for trusts governed by registered retirement savings plans, registered retirement income funds, deferred profit sharing plans and registered education savings plans. See “The Spinout — Certain Canadian Federal Income Tax Considerations.”

Meetings of Unitholders

The Fund Declaration provides that meetings of Unitholders must be called and held annually for the election of Fund Trustees and the appointment of auditors of the Fund. Unitholders will be entitled to pass resolutions that will bind the Fund Trustees only with respect to:

- the election or removal of Fund Trustees;
- the appointment or removal of the auditors of the Fund;
- the appointment of an inspector to investigate the performance by the Fund Trustees of their respective responsibilities and duties in respect of the Fund;
- the approval of amendments to the Fund Declaration (except as described under “— Amendments to the Fund Declaration” below);
- the termination of the Fund;
- the sale of all or substantially all of the assets of the Fund;
- the exercise of certain voting rights attached to the securities of the Trust held by the Fund and, subject to the terms of the Partnership Agreement, the securities of the Partnership held by the Trust (see “— Exercise of Certain Voting Rights Attached to Securities of the Trust” below);
- the ratification of any Unitholder rights plan, distribution reinvestment plan, distribution reinvestment and Fund Unit purchase plan, Fund Unit option plan or other compensation plan contemplated by the Fund Declaration requiring Unitholder approval;
- the dissolution or winding-up of the Fund; and
- any other matters requiring by securities law, stock exchange rules or other laws or regulations to be submitted to Unitholders for their approval;

provided that any resolution of the Unitholders that would cause the Fund or the Trust to breach the terms of any material contract shall not be binding on the Fund Trustees.

No other action taken by Unitholders or any other resolution of the Unitholders at any meeting will in any way bind the Fund Trustees.

A resolution approving the election or removing a Fund Trustee (except filling casual vacancies), appointing or removing the auditors of the Fund or with respect to the exercise of certain voting rights attached to securities of the Trust held by the Fund must be passed by a simple majority of the votes cast by Unitholders or by unanimous written approval. Except as otherwise required by law or stock exchange requirements, the balance of the foregoing matters must be passed by a resolution passed by the affirmative vote of the holders of not less than 66 $\frac{2}{3}$ % of the Fund Units who voted in respect of that resolution at a meeting at which a quorum was present, or a resolution or instrument signed in one or more counterparts by the holders of not less than 100% of the Fund Units entitled to vote on such resolution (a “**Special Resolution**”).

A meeting of Unitholders may be convened at any time and for any purpose by the Fund Trustees and must be convened, except in certain circumstances, if requisitioned in writing by the holders of not less than 5% of the Fund Units then outstanding. A requisition must state in reasonable detail the business proposed to be transacted at the meeting.

Unitholders may attend and vote at all meetings of the Unitholders either in person or by proxy and a proxyholder need not be a Unitholder. One or more persons present in person or represented by proxy and representing in total at

least 10% of the votes attached to all outstanding Fund Units will constitute a quorum for the transaction of business at all meetings.

The Fund Declaration contains provisions as to the notice required and other procedures with respect to the calling and holding of meetings of Unitholders.

Limitations on Non-Resident Ownership

In order for the Fund to maintain its status as a mutual fund trust under the Tax Act, the Fund must not be established or maintained primarily for the benefit of non-residents of Canada within the meaning of the Tax Act and, pursuant to certain proposed amendments to the Tax Act, not more than 50% of the fair market value of the Fund Units may be held by non-residents of Canada and/or partnerships (other than Canadian partnerships as defined in the Tax Act) (collectively referred to below as “**Non-Residents**”). Accordingly, the Fund Declaration provides that at no time may Non-Residents be the beneficial owners of more than 49% of the Fund Units (calculated on either a non-diluted or fully-diluted basis). The Fund Declaration also provides that the Fund Trustees shall require annual declarations as to the jurisdictions in or of which beneficial owners of Fund Units are resident or as to their status as Canadian partnerships. If the Fund Trustees become aware that the beneficial owners of 49% of the Fund Units (calculated on either a non-diluted or fully-diluted basis) are, or may be, Non-Residents or that such a situation is imminent, then the transfer agent and registrar will make a public announcement and will not accept a subscription for Fund Units from or issue or register a transfer of Fund Units to a person unless the person provides a declaration that the person is not a Non-Resident and will not hold such Fund Units for the benefit of a Non-Resident. If, notwithstanding the foregoing, the Fund Trustees determine that more than 49% of the Fund Units are held by or for the benefit of Non-Residents (calculated on either a non-diluted or fully-diluted basis), they may direct the transfer agent of the Fund Units to send a notice to such holders of Fund Units, chosen in inverse order to the order of acquisition or registration or in such manner as the Fund Trustees may consider equitable and practicable, requiring them to sell their Fund Units or a portion thereof within a specified period determined by the Fund Trustees and, in the interim, shall suspend the voting and distribution rights attached to such Fund Units (other than the right to receive proceeds from the sale). If the Unitholders receiving such notice have not sold the specified number of Fund Units or provided the Fund Trustees with satisfactory evidence that they are not Non-Residents within such period, the Fund Trustees may direct the transfer agent to sell such Fund Units on behalf of such Unitholders and, in the interim, the voting and distribution rights attached to such Fund Units will be suspended. Upon such sale, the affected holders will cease to be holders of the Fund Units and their rights will be limited to receiving the net proceeds of such sale.

ERISA Plans

The Fund Declaration will also contain restrictions preventing, until such time as the Fund makes a public announcement that the Fund Trustees have determined that such restrictions are no longer applicable or are not in the best interests of the Fund, any of the Fund Units from being held by or for the benefit of “ERISA Funds”, which are: (i) any “employee benefit plan” as defined in Section 3 of ERISA that is subject to Title I of ERISA; (ii) any “plan” as defined in, and subject to, Section 4975 of the United States Internal Revenue Code of 1986, as amended, or any successor statute (the “**Code**”); and (iii) any other entity which may be deemed (pursuant to ERISA, regulations of the United States Department of Labor or otherwise) to hold at any time assets of any such “employee benefit plan” or “plan”. If the Fund Trustees become aware that these restrictions have been contravened, then the Fund Trustees may direct the transfer agent to send a notice to any ERISA Fund holding Fund Units requiring them to sell their Fund Units within a specified period determined by the Fund Trustees and, in the interim, the voting and distribution rights attached to such Fund Units (other than the right to receive proceeds from the sale) shall be suspended. If the Unitholders receiving such notice have not sold all of their Fund Units or provided the Fund Trustees with satisfactory evidence within such period that they are not ERISA Funds and do not hold such Fund Units for the benefit of ERISA Funds, then the Fund Trustees may direct the transfer agent to sell such Fund Units on behalf of such Unitholders. Upon such sale, the affected holders shall cease to be holders of Fund Units and their rights shall be limited to receiving the net proceeds of sale of such Fund Units.

Amendments to the Fund Declaration

The Fund Declaration may be amended or altered from time to time by a Special Resolution of the Unitholders. The Fund Trustees may, without the approval of the Unitholders, make certain amendments to the Fund Declaration, including amendments:

- prior to completion of the Spinout;
- for the purpose of ensuring continuing compliance with applicable laws, regulations, requirements or policies of any governmental authority having jurisdiction over the Fund Trustees or over the Fund, including ensuring that the Fund continues to qualify as a “mutual fund trust” under the Tax Act;
- which, in the opinion of the Fund Trustees, are necessary or desirable as a result of changes in Canadian taxation laws;
- which, in the opinion of the Fund Trustees on the advice of counsel, provide additional protection for or benefit to the Unitholders; and
- to remove any conflicts or inconsistencies or cure ambiguity in the Fund Declaration or to make minor or typographical corrections or correct a clerical omission, mistake or manifest error which, in the opinion of the Fund Trustees, are necessary or desirable and not prejudicial to the Unitholders.

Notwithstanding the foregoing, the Fund Trustees may not amend the Fund Declaration in a manner that would result in the Fund failing to qualify as a “mutual fund trust” under the Tax Act and no such amendment shall modify the right to one vote per Fund Unit or reduce the fractional undivided interest in the assets of the Fund represented by any Fund Unit without the consent of the holder of such Fund Unit and no amendment shall reduce the percentage of votes required to be cast at a meeting of the Unitholders for the purpose of the amendment provisions, without the consent of the holders of all of the Fund Units then outstanding.

Term of the Fund

Unless the Fund is sooner terminated as otherwise provided herein, the Fund shall continue in full force and effect so long as any property of the Fund is held by the Fund Trustees, and the Fund Trustees shall have all the powers and discretions, expressed and implied, conferred upon them by law or by the Fund Declaration.

The Unitholders may vote by Special Resolution to terminate the Fund at any meeting of Unitholders duly called for the purpose of considering the termination of the Fund. Following the approval of such termination, the Trustees shall commence to wind up the affairs of the Fund. Such Special Resolution may contain such directions to the Trustees as the Unitholders determine.

The Fund Declaration provides that, upon being required to commence to wind up of the affairs of the Fund, the Fund Trustees will give notice to the Unitholders, which notice will designate the time or times at which Unitholders shall surrender their Fund Units for cancellation and the date at which the register of Fund Units will be closed. After the date that the register is closed, the Fund Trustees will proceed to wind up the affairs of the Fund as soon as may be reasonably practicable and for that purpose will, subject to any direction to the contrary in respect of a termination authorized by a resolution of the Unitholders, sell and convert into money the Trust Units and the Trust Notes and all other assets comprising the Fund in one transaction or in a series of transactions at public or private sales and do all other acts appropriate to liquidate the Fund. If the Fund Trustees are unable to sell all or any of the Trust Units and Trust Notes or other assets which comprise part of the Fund by the date set for termination, the Fund Trustees may, subject to obtaining all necessary regulatory approvals, distribute the remaining Trust Units and Trust Notes and other assets in specie directly to the Unitholders in accordance with their pro rata interests. After paying, retiring, discharging or making provision for the payment, retirement or discharge of all known liabilities and obligations of the Fund and providing for indemnity against any other outstanding liabilities and obligations, the Fund Trustees will, subject to obtaining all necessary regulatory approvals, be required to distribute the remaining part of the proceeds of the sale of the Trust Units and Trust Notes and other assets of the Fund among the Unitholders in accordance with their pro rata interests.

Take-over Bids

The Fund Declaration contains provisions to the effect that, if a take-over bid is made for the Fund Units and is accepted by Unitholders representing not less than 90% of the Fund Units (including Fund Units that may be acquired on the exchange of any Class B Exchangeable LP Units pursuant to the Exchange Agreement but other than Fund Units

and Class B Exchangeable LP Units beneficially owned or over which control or direction is exercised at the date of the takeover bid by the offeror or associates or affiliates of the offeror or any person acting jointly or in concert with the offeror), and such Fund Units are taken up and paid for by the offeror, the offeror will be entitled to acquire the Fund Units held by Unitholders who did not accept the take-over bid on the terms on which the offeror acquired Fund Units from Unitholders who accepted the take-over bid. At the same time, the holder of Class B Exchangeable LP Units will be required to indirectly exchange its Class B Exchangeable LP Units pursuant to the terms of the Exchange Agreement in order for the offeror to be able to acquire the Fund Units delivered on the mandatory exchange of such Class B Exchangeable LP Units.

Exercise of Certain Voting Rights Attached to Securities of the Trust

The Fund Declaration provides that, without the approval of the Unitholders by Special Resolution, the Fund will not vote any securities of the Trust held by the Fund except as may be authorized under the Shareholders' Agreement, and will not permit the Trust to vote its securities of the General Partner or the Partnership, to authorize:

- any sale, lease or other disposition of all or substantially all of the assets of the Trust, the General Partner or the Partnership, except in conjunction with an internal reorganization of the Trust or the Partnership;
- any amalgamation, arrangement or other merger of the Trust, the General Partner or the Partnership with any other entity, except in conjunction with an internal reorganization of the Trust, the General Partner or the Partnership;
- any material amendment to the Note Indenture that would be prejudicial to the holders of Series 2 Trust Notes or Series 3 Trust Notes;
- the winding-up or dissolution of the Trust, the General Partner or the Partnership;
- any material amendment to the constating documents of the Trust, the General Partner or the Partnership to change the authorized Trust Units or Partnership interests in a manner which may be prejudicial to the Fund; or
- any change to the allocation or priority of distribution provisions of the Partnership Agreement or the allocation or priority of the distribution of proceeds of liquidation, dissolution or winding up of the Partnership.

The Trust may not be entitled, or may choose not to exercise its entitlement, to vote in respect of the foregoing matters, in either of which case the approval of the Unitholders by Special Resolution will not be sought.

Information and Reports

The Fund intends to file and/or furnish to Unitholders, in accordance with applicable securities laws, the audited annual and unaudited quarterly consolidated financial statements of the Fund and the Partnership and other materials as are from time to time required by applicable securities laws. The Fund will also furnish Unitholders with such other reports as are from time to time required by applicable law, including prescribed forms needed for the completion of Unitholders' tax returns under the Tax Act and equivalent provincial legislation.

Prior to each meeting of Unitholders, the Fund Trustees will provide the Unitholders (along with notice of the meeting) with all information as is required by applicable law and the Fund Declaration to be provided to Unitholders.

Pursuant to the Shareholders' Agreement, the General Partner has agreed to make, on behalf of the Partnership, such filings under applicable securities laws, including the filing of financial statements, and to take such other reasonable steps as may be required to be taken by the General Partner, on behalf of the Partnership, in order that the Fund may comply with its obligations under applicable securities laws and commitments and undertakings given to any Commissions prior to the Effective Date. Accordingly, it is expected that the Partnership will provide the Fund with information regarding any material change that occurs in its affairs and with quarterly and annual financial statements accompanied by MD&A for the period covered by such financial statements in form and content that it would file with the applicable regulatory authorities as if it were a reporting issuer. Information, financial statements and MD&A will be provided to the Fund in a timely manner so as to permit the Fund to comply with the continuous disclosure requirements relating to reports of material changes in its affairs and the filing and delivery to securityholders of financial statements as required under applicable securities laws.

The Fund will provide all required undertakings to the Commissions that, for so long as the Fund is a reporting issuer under applicable securities laws:

- in complying with its reporting issuer obligations, the Fund will treat the Partnership as a subsidiary of the Fund; however, if Canadian GAAP prohibits the consolidation of financial information of the Partnership and the Fund, for as long as the Partnership (including any of its significant business interests) represents a significant asset of the Fund, the Fund will provide its Unitholders with separate consolidated financial statements for the Partnership (including information about any of the Partnership's significant business interests). For greater certainty, the Fund will file or cause to be filed annual audited financial statements and related MD&A, and an annual certificate thereon under MI 52-109 — Certification of Disclosure in Issuers' Annual and Interim Filings, for the Pulp Business on or before the 90th day after December 31, 2006 (December 31, 2005 being the most recent year end of the Pulp Business); and
- the Fund will annually certify that it has complied with this undertaking, and file the certificate on SEDAR concurrently with the filing of its annual financial statements.

The Partnership will provide an undertaking to the Fund that, for so long as the Fund is a reporting issuer under applicable securities laws:

- in order to facilitate compliance by the Fund with the Fund's reporting issuer obligations, the Partnership will permit itself to be treated as a subsidiary of the Fund; however, if Canadian GAAP prohibit the consolidation of financial information of the Partnership and the Fund, for as long as the Partnership (including any of its significant business interests) represents a significant asset of the Fund, the Partnership will provide the Fund with separate consolidated financial statements for the Partnership (including information about any of the Partnership's significant business interests). For greater certainty, the Partnership will prepare and provide to the Fund annual audited financial statements and related MD&A, and an annual certificate thereon under MI 52-109 — Certification of Disclosure in Issuers' Annual and Interim Filings, for the Pulp Business so that the Fund is able to file such financial statements and MD&A on or before the 90th day after the most recent year end of the Pulp Business; and
- the Partnership will annually certify that it has complied with this undertaking, and provide the certificate to the Fund so that the Fund may file the certificate on SEDAR concurrently with the filing of the Fund's annual financial statements.

The Fund will also provide all required undertakings to the Commissions that, for so long as the Fund is a reporting issuer under applicable securities laws:

- the Fund will take appropriate measures to require each person who would be an insider of the Partnership if the Partnership were a reporting issuer to: (i) file insider reports in respect of trades in units of the Fund (including securities which are exchangeable into units of the Fund), and (ii) comply with statutory prohibitions against insider trading; and
- the Fund will annually certify that it has complied with this undertaking, and file the certificate on SEDAR concurrently with the filing of its annual financial statements.

The Partnership will provide an undertaking to the Fund that, for so long as the Fund is a reporting issuer under applicable securities laws:

- the Partnership will take appropriate measures to require each person who would be an insider of the Partnership if the Partnership were a reporting issuer to: (i) file insider reports in respect of trades in units of the Fund (including securities which are exchangeable into units of the Fund), and (ii) comply with statutory prohibitions against insider trading; and
- the Partnership will annually certify that it has complied with this undertaking, and provide the certificate to the Fund so that the Fund may file the certificate on SEDAR concurrently with the filing of the Fund's annual financial statements.

Persons who would be insiders of the Partnership if the Partnership were a reporting issuer will provide undertakings to the Fund and the Partnership in order to facilitate compliance by the Fund and the Partnership with their undertakings in respect of insider reporting and compliance with the insider trading prohibitions referred to above.

Rights of Unitholders

Following the completion of the Spinout, the rights of Unitholders will be governed by the Fund Declaration. Although the Fund Declaration confers upon a Unitholder many of the same protections, rights and remedies as an investor would have as a shareholder of a corporation governed by the CBCA, there do exist significant differences.

Many of the provisions of the CBCA respecting the governance and management of a corporation have been incorporated in the Fund Declaration. For example, Unitholders are entitled to exercise voting rights in respect of their holdings of Fund Units in a manner comparable to shareholders of a CBCA corporation and to elect Fund Trustees and appoint auditors. The Fund Declaration also includes provisions modeled after comparable provisions of the CBCA dealing with the calling and holding of meetings of Unitholders and Fund Trustees, the quorum for and procedures at such meetings and the right of Unitholders to participate in the decision-making process where certain fundamental actions are proposed to be undertaken. The matters in respect of which Unitholder approval is required under the Fund Declaration are generally less extensive than the rights conferred on the shareholders of a CBCA corporation, but effectively extend to certain fundamental actions that may be undertaken by the Fund's subsidiary entities, as described under “— Exercise of Certain Voting Rights Attached to Securities of the Trust” above. These Unitholder approval rights are supplemented by provisions of applicable securities laws that are generally applicable to issuers (whether corporations, trusts or other entities) that are “reporting issuers” or the equivalent or listed on the TSX.

Unitholders do not have recourse to a dissent right under which shareholders of a CBCA corporation are entitled to receive the fair value of their shares where certain fundamental changes affecting the corporation are undertaken (such as an amalgamation, a continuance under the laws of another jurisdiction, the sale of all or substantially all of its property, a going private transaction or the addition, change or removal of provisions restricting (a) the business or businesses that the corporation can carry on, or (b) the issue, transfer or ownership of shares). As an alternative, Unitholders seeking to terminate their investment in the Fund are entitled to redeem their Fund Units, as described under “Description of the Fund and Fund Units — Redemption Right”. Unitholders similarly do not have recourse to the statutory oppression remedy that is available to shareholders of a CBCA corporation where the corporation undertakes actions that are oppressive, unfairly prejudicial or disregard the interests of securityholders and certain other parties.

Shareholders of a CBCA corporation may also apply to a court to order the liquidation and dissolution of the corporation in those circumstances, whereas Unitholders could rely only on the general provisions of the Fund Declaration which permit the winding up of the Fund with the approval of a Special Resolution of the Unitholders. Shareholders of a CBCA corporation may also apply to a court for the appointment of an inspector to investigate the manner in which the business of the corporation and its affiliates is being carried on where there is reason to believe that fraudulent, dishonest or oppressive conduct has occurred. The Fund Declaration allows Unitholders to call meetings to consider the appointment of an inspector to investigate the Fund Trustees' performance of their responsibilities and duties, but this process would not be subject to court oversight or assure the other investigative procedures, rights and remedies available under the CBCA. The CBCA also permits shareholders to bring or intervene in derivative actions in the name of the corporation or any of its subsidiaries, with the leave of a court. The Fund Declaration does not include a comparable right of the Unitholders to commence or participate in legal proceedings with respect to the Fund.

Registration of Fund Units

Until Registered Canfor Shareholders deposit the certificates formerly representing their Canfor Shares together with a properly completed Letter of Transmittal, their Fund Units will be held by the Depository on a non-certificated basis. Registration of interests in and transfers of the Fund Units will be made only through participants in CDS. Fund Units must be purchased, transferred and surrendered for redemption through a participant in the CDS depository service. All rights of Unitholders must be exercised through, and all payments or other property to which the Unitholder is entitled will be made or delivered by, CDS or the CDS participant through which the Unitholder holds the Fund Units. Upon a purchase of any Fund Units, the Unitholder will receive only a customer confirmation from the registered dealer which is a CDS participant and from or through which the Fund Units are purchased. References in this Information Circular to a Unitholder mean, unless the context otherwise requires, the owner of the beneficial interest in those Fund Units.

The Fund and the Fund Trustees will not be liable for any records maintained by CDS relating to the beneficial interests in the Fund Units or any actions taken, or advice given, by CDS with respect to the rules and regulations of CDS.

The ability of a beneficial owner of Fund Units to pledge those Fund Units or otherwise take action with respect to the Unitholder's interest in those Fund Units (other than through a CDS participant) may be limited due to the lack of a physical certificate.

The Fund has the option to terminate the non-certificated form of Fund Units, in which case certificates for the Fund Units in fully registered form would be issued to beneficial owners of those Fund Units or their nominees.

Conflicts of Interest Restrictions and Provisions

The Fund Declaration contains "conflict of interest" provisions that serve to protect Unitholders without creating undue limitations on the Fund. The Fund Declaration contains provisions, similar to those contained in the CBCA, that require each Fund Trustee to disclose to the Fund, as applicable, any interest in a material contract or transaction or proposed material contract or transaction with the Fund, or the fact that such person is a director or officer of, or otherwise has a material interest in, any person who is a party to a material contract or transaction or proposed material contract or transaction with the Fund. In any case, a Fund Trustee who has made disclosure to the foregoing effect is not entitled to vote on any resolution to approve the contract or transaction unless the contract or transaction is one relating primarily to (a) his or her remuneration as a Fund Trustee or officer of the Fund, as applicable, (b) insurance or indemnity, or (c) a contract or transaction with the Trust.

DESCRIPTION OF THE TRUST

The Trust Declaration contains provisions substantially similar to those of the Fund Declaration relating to the Fund. The description below is a summary only and is qualified in its entirety by reference to the text of the Trust Declaration and the Fund Declaration.

General

The Trust is an unincorporated, open-ended trust established under the laws of the Province of Ontario by the Trust Declaration. Its activities are restricted to, among other things:

- (a) acquiring, investing in, transferring, disposing of and otherwise dealing with securities, including those issued by the General Partner and the Partnership;
- (b) paying the expenses and liabilities of the Trust, paying amounts owing by the Trust in connection with the redemption of any Trust Units or other securities of the Trust and making distributions to holders of Trust Units and temporarily holding cash in interest bearing accounts, short-term government debt or short-term investment grade corporate debt for such purposes;
- (c) issuing Trust Units and other securities of the Trust (including warrants, options or other rights to acquire Trust Units or other securities of the Trust pursuant to the Trust Declaration), including for the purposes of:
 - (i) obtaining funds to conduct the activities described in paragraph (a) above, including raising funds for acquisitions or investments;
 - (ii) repayment of any indebtedness or borrowings of the Trust;
 - (iii) making non-cash distributions to Trust unitholders as contemplated by the Trust Declaration; and
 - (iv) giving effect to the exercise of the rights of exchange pursuant to the Exchange Agreement;
- (d) issuing debt securities, including the Trust Notes (including debt securities convertible into, or exchangeable for, Trust Units or other securities of the Trust) or otherwise borrowing and mortgaging, pledging, charging, granting a security interest in or otherwise encumbering any of its assets as security;
- (e) redeeming Trust Units or Trust Notes;
- (f) repurchasing securities issued by the Trust;
- (g) guaranteeing (as guarantor, surety or co-principal obligor) the payment of any indebtedness, liability or obligation of any affiliate of the Trust, or the performance of any obligation of any affiliate of the Trust, and mortgaging, pledging, charging, granting a security interest in or otherwise encumbering all or any part of

the assets of the Trust, including securities issued by the Partnership and the General Partner, as security for such guarantee;

- (h) guaranteeing the obligations of the Partnership, or any affiliate of the Trust or the Partnership, pursuant to any good faith debt for borrowed money incurred by the Partnership or the affiliate, as the case may be, and mortgaging, pledging, charging, granting a security interest in or otherwise encumbering all or any part of the assets of the Trust as security for such guarantee and entering into any subordination agreements in connection therewith;
- (i) satisfying the obligations, liabilities or indebtedness of the Trust;
- (j) disposing of all or any part of the assets of the Trust;
- (k) undertaking all activities as contemplated under “The Spinout — Transfer of the Pulp Business and Related Agreements” including the entering into of certain agreements (see “Material Contracts”);
- (l) undertaking all other usual and customary actions for the conduct of the activities of the Trust in the ordinary course as are approved by the Trust Trustees from time to time, or as are contemplated by the Trust Declaration; and
- (m) acquiring, investing in, transferring, disposing of and otherwise dealing with securities of any of the Partnership, the General Partner, and their respective subsidiaries and successors in connection with the Trust’s obligations under the Exchange Agreement;

provided that the Trust shall not undertake any activity, take any action or make or retain any investment which would result (or fail to take any action where such failure would result) in the Trust not being considered a “unit trust” for purposes of the Tax Act.

The Trust does not currently intend to hold securities of any entities other than the General Partner and the Partnership or in connection with its short-term cash management.

Restrictions on the Trust Trustees’ Powers

The Trust Declaration provides that the Trust’s Trustees may not, without approval by ordinary resolution of the holders of Trust Units, vote LP Units with respect to any matter which, under the Partnership Agreement, requires or permits the approval of the holders of LP Units by “Ordinary Resolution”, as such term is defined in, and in accordance with, the Partnership Agreement.

Furthermore, the Trust Declaration states that the Trust Trustees may not, without approval by special resolution of the holders of Trust Units:

- (a) vote the LP Units with respect to any matter which, under the Partnership Agreement, requires or permits the approval of the holders of LP Units by “Special Resolution”, as such term is defined in, and in accordance with, the Partnership Agreement, which includes any matter which under applicable law would require approval by “Special Resolution”, as such term is defined in the Partnership Agreement;
- (b) amend the Partnership Agreement;
- (c) authorize the sale, lease or exchange or all or substantially all of the property of the Trust other than in the ordinary course of business or in connection with an internal reorganization;
- (d) authorize the termination, liquidation or winding-up of the Trust, other than at the end of the term of the Trust; or
- (e) authorize the amalgamation, arrangement or other merger or similar transaction of the Trust with any other person other than in connection with an internal reorganization.

Redemption Rights

The Trust Units will be redeemable at any time on demand by the holders thereof upon delivery to the Trust of a duly completed and properly executed irrevocable notice requiring the Trust to redeem the Trust Units, in a form reasonably acceptable to the Trust Trustees, together with the certificates for the Trust Units representing the Trust Units to be redeemed and written instructions as to the number of Trust Units to be redeemed. Upon tender by a holder of Trust Units for redemption, the holder of the Trust Units tendered for redemption will no longer have any rights with respect to such Trust Units, other than the right to receive the redemption price for such Trust Units. The redemption

price for each Trust Unit tendered for redemption will be equal to the greater of \$0.01 and the result of the following formula:

$$\frac{(A \times B) - C + D}{E}$$

where:

- A = the cash redemption price per Fund Unit, as determined under the Fund Declaration, calculated as of the close of business on the date the Trust Units were so tendered for redemption by a holder of Trust Units;
- B = the aggregate number of Fund Units outstanding as of the close of business on the date the Trust Units were so tendered for redemption by a holder of Trust Units;
- C = the aggregate unpaid principal amount of the Series 1 Trust Notes and accrued interest thereon and any other indebtedness of the Trust held by or owed to the Fund and the fair market value of any other assets or investments held by the Fund (other than Trust Units) as of the close of business on the date the Trust Units were so tendered for redemption by a holder of Trust Units;
- D = the aggregate unpaid liabilities of the Fund (prior to redemption of Fund Units for such date) as of the close of business on the date the Trust Units were so tendered for redemption by a holder of Trust Units; and
- E = the aggregate number of Trust Units outstanding held by the Fund as of the close of business on the date the Trust Units were so tendered for redemption by a holder of Trust Units.

The aggregate redemption price payable by the Trust in respect of any Trust Units tendered for redemption by the holders thereof during any month will be satisfied, at the option of the Trust Trustees, (a) in immediately available funds by cheque; (b) by the issuance to or to the order of the holders of Trust Units whose Trust Units are to be redeemed of such aggregate amount of the Series 2 Trust Notes as is equal to the aggregate redemption price payable to such holder of Trust Units rounded down to the nearest \$10.00, with the balance of any such aggregate redemption price not paid in Series 2 Trust Notes to be paid in immediately available funds by cheque; or (c) by any combination of funds and Series 2 Trust Notes as the Trust Trustees shall determine in their sole discretion, in each such case payable or issuable on the day before the last day of the calendar month following the calendar month in which the Trust Units were so tendered for redemption. A holder of Trust Units whose Trust Units are tendered for redemption may elect, at any time prior to the payment of the redemption price, to receive Series 2 Trust Notes pursuant to (b) above in the place of all or part of the funds otherwise payable, the amount of such Series 2 Trust Notes payable to be equal to the funds otherwise payable, rounded down to the nearest \$10.00, with the difference to be paid in immediately available funds by cheque.

Distributions

The Trust intends to make monthly cash distributions to the holders of Trust Units of its net monthly cash receipts, after satisfaction of its interest obligations, if any, and less any estimated cash amounts required for expenses and other obligations of the Trust, any cash redemptions or repurchases of Trust Units or Trust Notes and any tax liability. Such distributions will be paid within 15 days following each calendar month end and are intended to be received by the Fund prior to its related cash distribution to Unitholders. The Trust Trustees may increase or decrease or halt cash distributions from time to time as they see fit.

The distribution payable in respect of the month ending December 31 in each calendar year will be required to include such amounts in respect of the taxable income and net realized capital gains, if any, of the Trust for such calendar year as are necessary to ensure that the Trust will not be liable for ordinary income taxes under the Tax Act in such year and will also be required to include the non-taxable portion of any capital gains realized by the Trust in such year.

If the Trust Trustees determine that the Trust does not have cash in an amount sufficient to make payment of the full amount of any distribution, then the payment may include the issuance of additional Trust Units having a value equal to the difference between the amount of such distribution and the amount of cash which has been determined by the Trust's Trustees to be available for the payment of such distribution.

Any Trust Units transferred to Unitholders pursuant to a distribution in specie may be subject to resale and transfer restrictions and cannot be resold or transferred, except as permitted by applicable securities law.

Trust Notes

The aggregate principal amount of Trust Notes is unlimited and may be issued as Series 1, Series 2 or Series 3. Trust Notes will be issuable in Canadian currency. Trust Notes are issuable in denominations of \$10 and integral multiples of \$10. No fractional Trust Notes will be distributed and where the number of Trust Notes to be received by a Unitholder includes a fraction, such number shall be rounded to the next lowest whole number (with the balance paid in cash). Following the Effective Date, the Trust will redeem a portion of the Trust Units held by the Fund and issue to the Fund Series 1 Trust Notes having a principal amount equal to the value of the redeemed Trust Units.

Series 2 Trust Notes will be reserved by the Trust to be issued exclusively to holders of Trust Units as full or partial payment of the redemption price of Trust Units, as the Trust Trustees may decide or, in certain circumstances, may be obliged to issue.

Series 3 Trust Notes will be reserved by the Trust to be issued exclusively as full or partial payment of the redemption price of Series 1 Trust Notes.

Interest and Maturity

The Series 1 Trust Notes to be issued on the Effective Date will be payable on demand, will mature on the 10th anniversary of the date of issuance and will bear interest at a rate of 3% per annum, payable on the last day of each calendar month that such Series 1 Trust Notes are outstanding.

The Series 2 Trust Notes will mature on a date which is no later than the first anniversary of the date of issuance thereof and will bear interest at a market rate to be determined by the Trust Trustees at the time of issuance thereof, payable on the last day of each calendar month that such Series 2 Trust Notes are outstanding.

The Series 3 Trust Notes will mature on the 10th anniversary of the date of issuance of the Series 1 Trust Notes and will bear interest at a market rate to be determined by the Trust Trustees at the time of issuance thereof, payable on the 15th day of each calendar month that such Series 3 Trust Notes are outstanding.

Payment upon Maturity

On maturity, the Trust will be required to repay the Trust Notes by paying to the trustee under the Note Indenture in cash an amount equal to the principal amount of the outstanding Trust Notes which have then matured, together with accrued and unpaid interest thereon.

Redemption

The Trust Notes will be redeemable (at a redemption price equal to the principal amount thereof plus accrued and unpaid interest, payable in cash) at the option of the Trust prior to maturity.

Subordination

Payment of the principal amount and interest on the Trust Notes will be subordinated in right of payment to the prior payment in full of the principal of and accrued and unpaid interest on, and all other amounts owing in respect of, all senior indebtedness (which will be defined as all indebtedness, liabilities and obligations of the Trust which, by the terms of the instrument creating or evidencing the same, are expressed to rank in right of payment in priority to the indebtedness evidenced by the Note Indenture). The Note Indenture will provide that, upon any distribution of the assets of the Trust in the event of any dissolution, liquidation, reorganization or other similar proceedings relative to the Trust, the holders of all such senior indebtedness will be entitled to receive payment in full before the holders of the Trust Notes are entitled to receive any payment.

Default

The Note Indenture provides that any of the following shall constitute an event of default:

- (a) default in payment of any principal of the Trust Notes when the same becomes due and the continuation of such default for a period of 90 days;
- (b) subject to the terms of any senior indebtedness, default in payment of any interest due on any Trust Notes and continuation of such default for a period of 90 days;
- (c) default in the observance or performance of any other covenant or condition of the Note Indenture and continuance of such default for a period of 90 days after notice in writing has been given by the trustee

under the Note Indenture to the Trust Trustees specifying such default and requiring the Trust to rectify the same; and

- (d) certain events of dissolution, winding up, liquidation, reorganization or other similar proceedings relative to the Trust.

The provisions governing an event of default under the Note Indenture and remedies available thereunder do not provide protection to the holders of Trust Notes which would be comparable to the provisions generally found in debt securities issued to the public as, among other things, covenants thereunder may be waived by the Partnership and amended by agreement by the Fund and the Trust without further approvals.

Unit Certificates

As Trust Units are not intended to be issued or held by any person other than the Fund and shall not be issued or held by any person other than the Fund without Unitholder approval, registration of interests in, and transfers of, the Trust Units will be made on a registered, certificated basis, with holders of Trust Units being entitled to receive certificates therefor.

Meetings of Unitholders

Meetings of holders of Trust Units may be held at such time and place as shall be prescribed for the purpose of transacting such business as the Trust Trustees may determine or as may properly be brought before the meeting.

Term of the Trust

Unless the Trust is sooner terminated as otherwise provided herein, the Trust shall continue in full force and effect so long as any property of the Trust is held by the Trust Trustees, and the Trust Trustees shall have all the powers and discretions, expressed and implied, conferred upon them by law or by the Trust Declaration.

The Trust unitholders may vote by special resolution to terminate the Trust at any meeting of Trust unitholders duly called for the purpose of considering the termination of the Trust. Following the approval of such termination, the Trust Trustees shall commence to wind up the affairs of the Trust. Such special resolution may contain such directions to the Trust Trustees as the Trust unitholders determine.

DESCRIPTION OF THE PARTNERSHIP

The following is a summary of the material attributes and characteristics of the LP Units which will be issued under the Partnership Agreement. This summary is qualified in its entirety by reference to the provisions of the Partnership Agreement which contains a complete statement of those attributes and characteristics.

Capitalization

Canfor Pulp Limited Partnership will be entitled to issue various classes of interests, for consideration and on such terms and conditions as are established by the General Partner. Immediately following the Effective Date, the Partnership will have issued and outstanding approximately 14.253 million Class A LP Units (substantially all of which will be held by the Trust) and 57.012 million Class B Exchangeable LP Units (all of which will be held by Canfor or its assignee). The General Partner will hold the GP Interest, representing a 0.001% undivided interest in the Partnership. All classes of LP Units will, except as otherwise noted, have materially equivalent economic and voting rights.

The Class B Exchangeable LP Units will be indirectly exchangeable at the option of the holder on a one-for-one basis for Fund Units in accordance with the provisions of the Exchange Agreement.

Distributions

The Partnership intends to make monthly cash distributions to holders of record of LP Units on the last Business Day of each month on their *pro rata* portions of its Distributable Cash so that distributions to Canfor will be equal on a pro rata basis to the distributions to be made to Unitholders by the Fund. Distributions will be paid within 15 days of the end of each month and are intended to be received by the Trust prior to its related cash distribution to holders of its Trust Units.

The board of directors of the General Partner has adopted a policy to initially distribute 90% of the annual Distributable Cash of the Partnership, subject to applicable law and the covenants in the New Credit Facilities, to the holders of the LP Units by way of monthly distributions, after:

- satisfying its debt service obligations, including principal and interest, such as interest accrued or payable in respect of drawings under the New Credit Facilities, and paying its expenses and other obligations and liabilities (including taxes, if any);
- making provisions for sustaining capital expenditures in respect of the Partnership's assets; and
- retaining such reasonable working capital and other reserves as may be considered appropriate by the board of directors.

The Partnership may, in addition, make distributions at any other time.

Allocation of Net Income and Losses

The income or loss for income tax purposes of the Partnership for a particular taxation year will be allocated to each partner in an amount calculated by multiplying the total income or loss for income tax purposes allocated to the partners by a fraction, the numerator of which shall be the sum of the cash distributions received by that partner with respect to that taxation year and the denominator of which shall be the total amount of the cash distributions made by the Partnership to all partners with respect to that taxation year. The amount of income for income tax purposes allocated to a partner may exceed or be less than the amount of cash distributed by the Partnership to that partner. If no cash distribution is made by the Partnership to its partners in a taxation year, the income or loss of the Partnership for that taxation year will be allocated to the partners based on the number of LP Units held by the partners at the end of that taxation year.

Income and loss of the Partnership for accounting purposes shall be allocated to each partner in the same proportion as income or loss shall be allocated for income tax purposes.

Limited Liability

The Partnership will be required to operate in a manner so as to ensure to the greatest extent possible the limited liability of the limited partners. If limited liability is lost by reason of the gross negligence of the General Partner in performing its duties and obligations under the Partnership Agreement, then the General Partner has agreed to indemnify the limited partners in respect of any loss, damage cost or expense arising from the absence of the limited liability intended by the Partnership Agreement.

Transfer of LP Units

The LP Units are not transferable except in accordance with the Shareholders' Agreement, the Exchange Agreement and the Partnership Agreement and subject to compliance with applicable securities restrictions, provided that LP Units may not be transferred to any person that is a Non-Resident for purposes of the Tax Act, to a partnership other than a Canadian partnership or if such transfer would jeopardize the Fund's regulatory status for tax purposes. An LP Unit is not transferable in part. No transfer of an LP Unit will be accepted by the Partnership unless a transfer form, duly completed and signed by the registered holder of the LP Unit and the transferee, has been remitted to the registrar and transfer agent of the Partnership. A transferee of an LP Unit will become a partner, and will be subject to the obligations and entitled to the rights of a partner under the Partnership Agreement, on the date on which the transfer is recorded.

Take-Over Bids

The Partnership Agreement will provide that no holder of GP Shares or LP Units shall transfer any GP Shares or LP Units, other than to one or more of its affiliates or to the Trust in accordance with the terms of the Exchange Agreement, unless (a) the transferee would not be required under applicable securities legislation as a result of such transfer to make an offer to all holders of Fund Units to acquire such units on the same terms and conditions if, immediately prior to such transfer, all outstanding LP Units and the same number of GP Shares had been exchanged for Fund Units in accordance with the terms of the Exchange Agreement, or (b) the offeror acquiring such LP Units and GP Shares makes a contemporaneous offer for Fund Units on the same terms (in terms of price, timing and proportion of securities sought to be acquired) and conditions and does not acquire such LP Units or GP Shares unless the offeror also acquires a proportionate number of Fund Units tendered to such offer, if any.

Amendment

The Partnership Agreement may be amended at any time prior to the Effective Date and, thereafter, with approval by special resolution of the holders of LP Units, except for amendments which require unanimous approval of holders of LP Units. Unanimous approval of holders of LP Units is required for: (a) altering the ability of the limited partners to involuntarily remove the General Partner as general partner; (b) changing the liability of any limited partner; (c) changing the right of a limited partner to vote at any meeting; (d) changing the allocation or priority of distributions, or the allocation or priority of the distribution of proceeds of liquidation, dissolution or winding up of the Partnership; or (e) changing the Partnership from a limited partnership to a general partnership. Notwithstanding the foregoing, no amendment which would adversely affect the rights and obligations of the General Partner, as general partner, may be made without its prior written consent. The General Partner may make amendments to the Partnership Agreement to reflect: (a) a change in the name of the Partnership or the location of the principal place of business of the Partnership or the registered office of the Partnership; (b) a change in the governing law of the Partnership to any other province of Canada; (c) admission, substitution, withdrawal or removal of limited partners in accordance with the Partnership Agreement; (d) a change that, as determined by the General Partner, is reasonable and necessary or appropriate to qualify or continue the qualification of the Partnership as a limited partnership in which the limited partners have limited liability under the applicable laws; (e) a change that, as determined by the General Partner, is reasonable, necessary or appropriate to enable the Partnership to take advantage of, or not be detrimentally affected by, changes in the Tax Act or other taxation laws; (f) a change to amend or add any provision, or to cure any ambiguity or to correct or supplement any provisions contained in the Partnership Agreement which may be defective or inconsistent with any other provision contained in the Partnership Agreement or which should be made to make the Partnership Agreement consistent with the disclosure set out in this Information Circular; or (g) a change that, as determined by the General Partner, does not materially adversely affect the limited partners.

Meetings

The General Partner may call meetings of partners and will be required to convene a meeting on receipt of a request in writing of the holder(s) of not less than 10% in number of the outstanding LP Units. Each partner is entitled to one vote for each LP Unit held. A quorum at a meeting of partners consists of two or more partners present in person or by proxy.

DESCRIPTION OF THE GENERAL PARTNER

Functions and Powers of the General Partner

Under the terms of the Partnership Agreement, Canfor Pulp Holding Inc., as General Partner, has exclusive authority to manage the business and affairs of the Partnership, to make all decisions regarding the Pulp Business and to bind the Partnership. The General Partner will exercise its powers and discharge its duties honestly, in good faith and in the best interests of the Partnership and exercise the care, diligence and skill of a reasonably prudent person in comparable circumstances. The authority and power vested in the General Partner to manage the business and affairs of the Partnership includes all authority necessary or incidental to carry out the objects, purposes and business of the Partnership including, without limitation, the ability to engage agents to assist the General Partner to carry out its management obligations or administrative functions. The General Partner cannot dissolve the Partnership or wind-up the Partnership's affairs, except in accordance with the provisions of the Partnership Agreement.

Withdrawal or Removal of the General Partner

The General Partner may resign on not less than 180 days' written notice to the limited partners of the Partnership, provided that the General Partner will not resign if the effect would be to dissolve the Partnership. The General Partner may not be removed as general partner of the Partnership unless:

- the General Partner has committed a material breach of the Partnership Agreement, which breach has continued unremedied for 30 days after notice, and that removal is also approved by a Special Resolution of the partners of the Partnership;
- the shareholders or directors of the General Partner pass a resolution in connection with the bankruptcy, dissolution, liquidation or winding-up of the General Partner; or
- the General Partner commits certain other acts of bankruptcy or ceases to be a subsisting corporation, provided that certain other conditions are satisfied, including a requirement that a successor general partner with the

same ownership and governance structure at the relevant time agrees to act as general partner under the Partnership Agreement.

PRINCIPAL UNITHOLDER

The following table shows the name and information about the securities of the Fund directly or indirectly beneficially owned by each person or company who, upon completion of the Spinout, will own of record, or who, to the knowledge of the Fund, will own beneficially, directly or indirectly, more than 10% of any class or series of voting securities of the Fund. The information set forth in the following table is presented on a *pro forma* basis reflecting the exchange of all of the Class B Exchangeable LP Units held by Canfor for Fund Units.

	<u>Number of Fund Units Owned</u>	<u>Number of Fund Units to be Owned</u>	<u>Type of Ownership</u>	<u>Percentage of Fund Units Owned</u>
Canfor Corporation	10 ⁽¹⁾	57.012 million ⁽²⁾	indirect ⁽¹⁾	80%

(1) Held by Canfor's wholly-owned subsidiary, CFP.

(2) Assuming completion of the Spinout and the indirect exchange of all of the Class B Exchangeable LP Units held by Canfor into Fund Units.

RISK FACTORS

Completion of the Spinout is subject to a number of risks, and an investment in the Pulp Business is subject to risks related to the pulp industry, and risks related to the structure of the Fund and the Spinout. See "Risk Factors" in this Information Circular for a description of these risks.

AUDITORS, TRANSFER AGENT AND REGISTRAR

The auditors of the Fund and the Partnership are PricewaterhouseCoopers LLP, Chartered Accountants, Vancouver, British Columbia.

The transfer agent and registrar for the Fund Units is CIBC Mellon Trust Company at its principal transfer offices located in Vancouver and Toronto.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Other than as set out under "Material Contracts" or described elsewhere in this Information Circular, none of the directors, trustees or senior officers, as applicable, of (a) the Fund, the Trust, the Partnership or Canfor, or (b) any associate or affiliate of the persons referred to in (a), has or has had any material interest, direct or indirect, in any transaction within the past three years or in any proposed transaction that has materially affected or will materially affect the Fund, the Trust, the Partnership or any of their subsidiaries.

MATERIAL CONTRACTS

The only material contracts entered into by any of the Fund, the Trust or the Partnership during the past two years or to which any of them will become a party on or prior to the Effective Date, other than in the ordinary course of business, are as follows:

1. the Fund Declaration referred to under "Description of the Fund and Fund Units — Fund Declaration";
2. the Trust Declaration referred to under "Description of the Trust";
3. the Note Indenture referred to under "Description of the Trust — Trust Notes";
4. the Partnership Agreement referred to under "Description of the Partnership";
5. the Shareholders' Agreement referred to under "The Spinout — Transfer of the Pulp Business and Related Agreements — Other Material Agreements — Shareholders' Agreement";
6. the Exchange Agreement referred to under "Transfer of the Pulp Business and Related Agreements — Other Material Agreements — Exchange Agreement";
7. the Acquisition Agreement referred to under "Transfer of the Pulp Business and Related Agreements — Acquisition Agreement";

8. the Fibre Supply Agreement referred to under “The Spinout — Transfer of the Pulp Business and Related Agreements — Other Material Agreements — Fibre Supply Agreement”;
9. the Cogeneration Agreement referred to under “The Pulp Business — Energy — PGP&P — Cogeneration Agreement”;
10. the Chemical Supply Agreement referred to under “The Pulp Business — Chemicals”;
11. the Fund Support Agreement referred to under “The Spinout — Transfer of the Pulp Business and Related Agreements — Other Material Agreements — Fund Support Agreement”; and
12. the Partnership Services Agreement referred to under “The Spinout — Transfer of the Pulp Business and Related Agreements — Other Material Agreements — Partnership Services Agreement”.

Copies of the foregoing documents may be examined at Canfor’s head office at 1700 West 75th Avenue, Vancouver, British Columbia V6P 6G2, during normal business hours at any time prior to the Meeting and for 30 days thereafter.

INDEX TO FINANCIAL STATEMENTS

	<u>Page</u>
Auditors' Consent	E-65
Consolidated Balance Sheet of Canfor Pulp Income Fund	E-66
Auditors' Report	E-67
Consolidated Balance Sheet as at April 25, 2006	E-68
Notes to Consolidated Balance Sheet	E-69
<i>Pro Forma</i> Consolidated Financial Statements of Canfor Pulp Income Fund	E-70
Compilation Report on <i>Pro Forma</i> Consolidated Financial Statements	E-71
<i>Pro Forma</i> Consolidated Balance Sheet as at December 31, 2005	E-72
<i>Pro Forma</i> Consolidated Statement of Operations for the Year Ended December 31, 2005	E-73
Notes to <i>Pro Forma</i> Consolidated Financial Statements	E-74
Balance Sheet of Canfor Pulp Limited Partnership	E-76
Auditors' Report	E-77
Balance Sheet as at April 25, 2006	E-78
Note to Balance Sheet	E-79
<i>Pro Forma</i> Financial Statements of Canfor Pulp Limited Partnership	E-80
Compilation Report on <i>Pro Forma</i> Financial Statements	E-81
<i>Pro Forma</i> Balance Sheet as at December 31, 2005	E-82
<i>Pro Forma</i> Statement of Operations for the Year Ended December 31, 2005	E-83
Notes to <i>Pro Forma</i> Financial Statements	E-84
Financial Statements of the Canfor Corporation NBSK Pulp and Paper Business Unit for the years ended December 31, 2005, December 31, 2004 and December 31, 2003	E-85
Auditors' Report	E-86
Balance Sheets	E-87
Statements of Changes in Business Unit Equity	E-88
Statements of Operations	E-89
Statements of Cash Flows	E-90
Notes to Financial Statements	E-91

AUDITORS' CONSENT

We have read the Information Circular of Canfor dated April 28, 2006 relating to the Arrangement under which Registered Canfor Shareholders will receive units of Canfor Pulp Income Fund as a return of capital. We have complied with Canadian generally accepted standards for an auditor's involvement with offering documents.

We consent to the use in the above-mentioned Information Circular of:

- Our report to the Directors of Canfor Corporation on the balance sheets of the Canfor NBSK Pulp and Paper Business as of December 31, 2005 and 2004, and the statements of operations, changes in business unit equity and cash flows for each of the years in the three-year period ended December 31, 2005. Our report is dated February 13, 2006;
- Our report to the Partners of Canfor Pulp Limited Partnership on the balance sheet of the Canfor Pulp Limited Partnership as of April 25, 2006. Our report is dated April 28, 2006;
- Our report to the Trustees of the Canfor Pulp Income Fund on the balance sheet of the Fund as of April 25, 2006. Our report is dated April 28, 2006; and
- Our report to the Shareholders of Canfor Corporation on the balance sheets of Canfor Corporation as of December 31, 2005 and 2004 and the statements of income and retained earnings and cash flow for the years then ended incorporated by reference. Our report is dated February 13, 2006.

(signed) PricewaterhouseCoopers LLP
Chartered Accountants

Vancouver, British Columbia
April 28, 2006

CANFOR PULP INCOME FUND

CONSOLIDATED BALANCE SHEET

April 25, 2006

(Expressed in thousands of Canadian dollars)

Auditors' Report

To the Trustees of Canfor Pulp Income Fund

We have audited the consolidated balance sheet of **Canfor Pulp Income Fund** (the "Fund") as at April 25, 2006. This balance sheet is the responsibility of the Fund's management. Our responsibility is to express an opinion on this balance sheet 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 the Fund as at April 25, 2006 in accordance with Canadian generally accepted accounting principles.

(signed) PricewaterhouseCoopers LLP
Chartered Accountants

Vancouver, British Columbia
April 28, 2006

CANFOR PULP INCOME FUND

CONSOLIDATED BALANCE SHEET

As at April 25, 2006

(expressed in thousands of Canadian dollars)

	\$
Cash	<u>1</u>
Unitholder's Equity (note 2)	<u>1</u>

Signed on behalf Canfor Pulp Income Fund

(signed) S. Bracken-Horrocks
Trustee

CANFOR PULP INCOME FUND

NOTES TO CONSOLIDATED BALANCE SHEET

April 25, 2006

(expressed in thousands of Canadian dollars)

1 The Fund

Canfor Pulp Income Fund (the "Fund") is an unincorporated open-ended trust established under the laws of the Province of Ontario on April 21, 2006, pursuant to the Fund Declaration. It is intended that the Fund will qualify as a "mutual fund trust" for purposes of the Income Tax Act (Canada). The principal head office of the Fund is located at Vancouver, B.C., Canada. The Fund has been established to acquire and hold, through a newly constituted wholly owned trust Canfor Pulp Trust (the "Trust"), investments in the limited partnership units of the Canfor Pulp Limited Partnership (the "Partnership"). The General Partner of the Partnership is Canfor Pulp Holding Inc. (the "General Partner"). Each Unitholder participates pro rata in any distributions from the Fund. Income tax obligations related to the distributions of the Fund are the obligations of the Unitholders.

2 Unitholders' equity

The Fund may issue an unlimited number of units ("Fund Units") for the consideration of, and on the terms and conditions determined by the Trustees. Each Fund Unit is transferable and represents an equal and undivided beneficial interest in any distributions from the Fund. All Fund Units are of the same class and have equal rights and privileges.

The Fund issued 100 Fund Units on April 21, 2006 for cash consideration of \$1.

Redemption rights

Fund Units are redeemable at any time on demand by the holders thereof upon delivery to the Fund of a duly completed and properly executed notice requesting redemption in a form approved by the Fund Trustees. Upon receipt of the redemption notice by the Fund, all rights with respect to the Fund Units tendered for redemption, including the right to receive any distributions which are declared payable to the Unitholders of record on a date subsequent to the date of receipt by the Fund of such notice, will be surrendered and the Unitholder will be entitled to receive a price per Fund Unit equal to the lesser of 90% of the market price of the Fund Units as of the date on which the Fund Units are surrendered for redemption ("Redemption Date"); and 100% of the closing market price on the Redemption Date.

Exchange rights

Subject to subordination arrangements as described in the Exchange Agreement, the holders of Class B Exchangeable Limited Partnership Units have the ability to indirectly exchange the Class B Exchangeable Limited Partnership Units on a one for-one basis into Fund Units.

3 Guarantees

The Fund Declaration provides that its Trustees will act honestly and in good faith with a view to the best interest of the Fund and in connection with that duty will exercise the degree of care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. The Fund Declaration provides that each Trustee will be entitled to indemnification and reimbursement from the Fund out of the assets of the Fund in respect of the exercise of the Trustee's powers and the discharge of the Trustee's duties, provided that the Trustee acts honestly and in good faith with a view to the best interests of the Fund, and in the case of a criminal or administration action or proceeding that is enforced by a monetary penalty, where the Trustee has reasonable grounds for believing that his/her conduct is lawful. No claims with respect to such occurrences have been made and, as such, no amounts have been recorded in this balance sheet with respect to these indemnifications.

CANFOR PULP INCOME FUND

PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

December 31, 2005

(in thousands of Canadian dollars)

Compilation Report on Pro Forma Consolidated Financial Statements

To the Trustees of Canfor Pulp Income Fund

We have read the accompanying unaudited pro forma consolidated balance sheet of Canfor Pulp Income Fund (the “Fund”) as at December 31, 2005 and the unaudited pro forma consolidated statement of operations for the year ended December 31, 2005 and have performed the following procedures:

1. Compared the figures in the columns captioned “Canfor Pulp Income Fund” to the unaudited financial statements of the Partnership as at April 25, 2006, and found them to be in agreement.
2. Made enquiries of certain officials of the Partnership who have responsibility for financial and accounting matters about:
 - a) the basis for determination of the pro forma adjustments; and
 - b) whether the pro forma financial statements comply as to form in all material respects with the requirements of the applicable securities regulatory authorities in Canada.

The officials:

- a) described to us the basis for determination of the pro forma adjustments; and
 - b) stated that the pro forma statements comply as to form in all material respects with the requirements of the applicable securities regulatory authorities in Canada.
3. Read the notes to the pro forma consolidated statements, and found them to be consistent with the basis described to us for determination of the pro forma adjustments.
4. Recalculated the application of the pro forma adjustments to amounts in the column captioned “Canfor Pulp Income Fund” as at December 31, 2005 and for the year ended December 31, 2005, and found the amounts in the column captioned “Pro forma Canfor Pulp Income Fund” to be arithmetically correct.

A pro forma consolidated financial statement is based on management assumptions and adjustments which are inherently subjective. The foregoing procedures are substantially less than either an audit or a review, the objective of which is the expression of assurance with respect to management’s assumptions, the pro form adjustments, and the application of the adjustments to the historical financial information. Accordingly, we express no such assurance. The foregoing procedures would not necessarily reveal matters of significance to the pro forma consolidated financial statements, and we therefore make no representation about the sufficiency of the procedures for the purposes of a reader of such statements.

(signed) PricewaterhouseCoopers LLP
Chartered Accountants

Vancouver, British Columbia
April 28, 2006

CANFOR PULP INCOME FUND

PRO FORMA CONSOLIDATED BALANCE SHEET

(Unaudited)

As at December 31, 2005

(in thousands of Canadian dollars)

	Canfor Pulp Income Fund	Pro Forma Adjustment	Pro Forma Canfor Pulp Income Fund
	\$	\$	\$
		(note 3)	
Investment in Canfor Pulp Limited Partnership	<u>1</u>	121,222	<u>121,223</u>
Unitholders' equity	<u>1</u>	121,222	<u>121,223</u>

CANFOR PULP INCOME FUND

PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS

(Unaudited)

For the year ended December 31, 2005

(in thousands of Canadian dollars except per unit amounts)

	Canfor Pulp Income Fund \$	Pro Forma Adjustment \$	Pro Forma Canfor Pulp Income Fund \$
		(note 3)	
Equity loss of Canfor Pulp Limited Partnership	<u>—</u>	(601)	<u>(601)</u>
Loss for the year	<u>—</u>		<u>(601)</u>
Loss per Fund Unit			<u>(0.04)</u>

CANFOR PULP INCOME FUND

NOTES TO PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

December 31, 2005

(in thousands of Canadian dollars)

1 Transactions

The unaudited pro forma consolidated statement of the Canfor Pulp Income Fund (the "Fund") have been prepared to reflect the following proposed transactions (collectively the "Transactions"):

- The issuance by the Fund of 14.253 million Fund Units.
- The indirect acquisition by the Fund of 14.253 million Class A Limited Partnership Units ("Class A LP Units") of Canfor Pulp Limited Partnership (the "Partnership").

Upon completion of the Transactions, the Fund, through its investment in the Trust, will hold 20% of the Units of the Partnership. These unaudited pro forma financial statements assume that Canfor Corporation ("Canfor") will hold 79.999% of the Partnership. Further, these unaudited pro forma financial statements do not include any potential adjustments resulting from the exercise of Class B Limited Partnership Units held by Canfor.

2 Basis of presentation

The Fund is an unincorporated open-ended trust established under the laws of the Province of Ontario on April 21, 2006, pursuant to the Fund Declaration. The Fund has been established to acquire and hold, through a newly constituted wholly owned trust Canfor Pulp Trust (the "Trust"), an investment in the limited partnership Units of the Canfor Pulp Limited Partnership (the "Partnership"). The General Partner of the Partnership is Canfor Pulp Holding Inc. Each Unitholder participates pro rata in any distributions from the Fund. As the Fund is committed to distribute, to its unitholders, all or virtually all of its taxable income and taxable capital gains that would otherwise be taxable in the Fund and the Fund intends to continue to meet the requirements of the Income Tax Act (Canada) as a "mutual fund" trust, the Fund will not recognize any future income tax assets or liabilities related to its investment in the Partnership.

The accompanying unaudited pro forma balance sheet and unaudited pro forma statements for earnings for the year ended December 31, 2005 are of the Fund and have been prepared by management for Canfor on behalf of the Fund using the accounting policies disclosed below. In the opinion of management of Canfor, the unaudited pro forma balance sheet as of December 31, 2005 and the unaudited pro forma statement of earnings for the year ended December 31, 2005, include all adjustments necessary for the fair presentation of the proposed Transactions in accordance with Canadian generally accepted accounting principles. The accompanying unaudited pro forma financial statements give effect to the proposed acquisition by the Fund of an indirect 20% interest in the Partnership.

The underlying assumptions for the pro forma adjustments provide a reasonable basis for presenting the significant effects directly attributable to the Transactions; however, the unaudited pro forma financial statements are not necessarily indicative of the results that would have been achieved if the Transactions reflected therein has been completed on the dates indicated or the results which may be obtained in the future.

The unaudited pro forma financial statements should be read in conjunction with the description of the acquisition of the Fund of an indirect 20% interest in the Partnership, the description of other transactions related to the Partnership to be created and continue the operations of the Pulp Business, the historical financial statements of the Fund, the Partnership and the Pulp Business, and the unaudited pro forma financial statements of the Partnership included elsewhere in the information circular.

The Fund will account for its investment in the Partnership using the equity method of accounting whereby the investment will be initially recorded at cost and the carrying value adjusted thereafter to include the Fund's pro rate share of post acquisition earnings and capital transactions of the Partnership. Distributions received or receivable from the Partnership will reduce the carrying value of the investment.

3 Pro forma adjustments and assumptions

The unaudited pro forma balance sheet of the Fund as at December 31, 2005 is based upon the opening balance sheet of the Fund as of April 25, 2006 and has been prepared as if the Fund was created and the Transactions had occurred on December 31, 2005.

Upon completion of the Transactions, the Fund, through its investment in the Trust, will hold 20% of the Units of the Partnership. The Fund's proportionate share of the equity of the Partnership at December 31, 2005 has been determined as follows:

	\$
Pro forma equity of the Partnership	606,110
Fund's interest	20%
	<u>121,222</u>

The unaudited pro forma statement of earnings of the Fund for the year ended December 31, 2005 are based upon the assumption that the Fund was established on January 1, 2005 and acquired its 20% interest in the Partnership on that date. The adjustments reflect the Fund's proportionate interest in the pro for earnings of the Partnership.

The unaudited pro forma earnings of the Fund, representing its pro forma share of the Partnership earnings following the equity method of accounting for the year ended December 31, 2005.

The Fund's proportionate share of loss in the Partnership has been determined as follows:

	<u>\$</u>
Pro forma loss of the Partnership for the year ended December 31, 2005	(3,007)
Fund's interest	<u>20%</u>
Fund's proportionate share of the Partnership pro forma loss	<u>(601)</u>

Loss per Fund Unit has been based on the Fund Units to be issued to unitholders under the Transactions and does not reflect any adjustments that may occur from any exchange or liquidity rights held by Canfor.

CANFOR PULP LIMITED PARTNERSHIP

BALANCE SHEET

April 25, 2006

(Expressed in thousands of Canadian dollars)

Auditors' Report

To the Partners of Canfor Pulp Limited Partnership

We have audited the balance sheet of **Canfor Pulp Limited Partnership** (the "Partnership") as at April 25, 2006. This balance sheet is the responsibility of the Partnership's management. Our responsibility is to express an opinion on this balance sheet 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 the Partnership as at April 25, 2006 in accordance with Canadian generally accepted accounting principles.

(signed) PricewaterhouseCoopers LLP
Chartered Accountants

Vancouver, British Columbia
April 28, 2006

CANFOR PULP LIMITED PARTNERSHIP

BALANCE SHEET

As at April 25, 2006

(expressed in thousands of Canadian dollars)

	<u>\$</u>
Cash	<u>2</u>
Partners' Equity (note 2)	<u>2</u>

**Signed on behalf of Canfor Pulp Limited Partnership
by the Board of directors of its general partner, Canfor Pulp Holding Inc.**

(signed) P.J.G. Bentley
Director

(signed) J.A. Shepherd
Director

CANFOR PULP LIMITED PARTNERSHIP

NOTES TO BALANCE SHEET

April 25, 2006

(expressed in thousands of Canadian dollars)

1 Nature of business and basis of presentation

Canfor Pulp Limited Partnership (the "Partnership") was formed on April 21, 2006 under the laws of Manitoba to acquire the NBSK pulp and paper business unit ("Pulp Business") of Canadian Forest Products Ltd. ("CFP"), a subsidiary of Canfor Corporation. The Pulp Business consists of two northern bleached softwood kraft pulp mills and one NBSK pulp and paper mill located in Prince George, B.C. The Partnership is unincorporated and its balance sheet does not include the assets, liabilities revenue and expenses of its partners.

The Partnership's general partner is Canfor Pulp Holding Inc. (the "General Partner").

The accompanying balance sheet as at April 25, 2006 has been prepared by management of Canfor on behalf of the Partnership using accounting policies in accordance with Canadian generally accepted accounting principles.

2 Partners' equity

The Partnership has the following units available for issue:

- Class A Limited Partnership Units ("Class A LP Units") — representing 20% interest in the Partnership to be issued to Canfor Pulp Trust (the "Trust").
- Class B Exchangeable Limited Partnership Units ("Class B Exchangeable LP Units") — representing 79.999% interest in the partnership.

The Class A LP Units and Class B Exchangeable LP Units will have economic and voting rights that are equivalent in all material respects. The Class B Exchangeable LP Units will (together with an equal number of common shares of the General Partner) be indirectly exchangeable for Units in the Canfor Pulp Income Fund (the "Fund") on a one-for-one basis.

On April 21, 2006, the Partnership issued 100 Class A LP Units to CFP for proceeds of \$1 and issued an undivided interest of 0.001%, to the General Partner for proceeds of \$1.

CANFOR PULP LIMITED PARTNERSHIP

PRO FORMA FINANCIAL STATEMENTS

(Unaudited)

December 31, 2005

(in thousands of Canadian dollars)

Compilation Report on Pro Forma Financial Statements

To the Partners of Canfor Pulp Limited Partnership

We have read the accompanying unaudited pro forma balance sheet of Canfor Pulp Limited Partnership (the "Partnership") as at December 31, 2005 and the unaudited pro forma statement of operations for the year ended December 31, 2005 and have performed the following procedures:

1. Compared the figures in the columns captioned "Canfor Pulp Limited Partnership" to the audited financial statements of the Partnership as at April 25, 2006, and found them to be in agreement.
2. Compared the figures in the columns captioned "Pulp Business" to the audited financial statements of the Pulp Business for the year ended December 31, 2005 and found them to be in agreement.
3. Made enquiries of certain officials of the Partnership who have responsibility for financial and accounting matters about:
 - a) the basis for determination of the pro forma adjustments; and
 - b) whether the pro forma financial statements comply as to form in all material respects with the requirements of the applicable securities regulatory authorities in Canada.

The officials:

- c) described to us the basis for determination of the pro forma adjustments; and
 - d) stated that the pro forma statements comply as to form in all material respects with the requirements of the applicable securities regulatory authorities in Canada.
4. Read the notes to the pro forma statements, and found them to be consistent with the basis described to us for determination of the pro forma adjustments.
5. Recalculated the application of the pro forma adjustments to the aggregate of the amounts in the columns captioned "Canfor Pulp Limited Partnership" and "Pulp Business" as at December 31, 2005 and for the year ended December 31, 2005, and found the amounts in the column captioned "Pro forma Canfor Pulp Limited Partnership" to be arithmetically correct.

A pro forma financial statement is based on management assumptions and adjustments which are inherently subjective. The foregoing procedures are substantially less than either an audit or a review, the objective of which is the expression of assurance with respect to management's assumptions, the pro form adjustments, and the application of the adjustments to the historical financial information. Accordingly, we express no such assurance. The foregoing procedures would not necessarily reveal matters of significance to the pro forma financial statements, and we therefore make no representation about the sufficiency of the procedures for the purposes of a reader of such statements.

(signed) PricewaterhouseCoopers LLP
Chartered Accountants

Vancouver, British Columbia
April 28, 2006

CANFOR PULP LIMITED PARTNERSHIP

PRO FORMA BALANCE SHEET

(Unaudited)

As at December 31, 2005

(in thousands of Canadian dollars)

	Canfor Pulp Limited Partnership	Pulp Business	Pro forma adjustments	(Note 3)	Pro forma Canfor Pulp Limited Partnership
	<u>\$</u>	<u>\$</u>	<u>\$</u>		<u>\$</u>
ASSETS					
Current assets					
Cash	2	648			650
Accounts receivable					
Trade	—	85,546			85,546
Other	—	9,928			9,928
Inventories	—	106,563			106,563
Prepaid expenses	—	2,597			2,597
	2	205,282			205,284
Property, plant and equipment	—	631,138			631,138
Long-term investments	—	90			90
	<u>2</u>	<u>836,510</u>			<u>836,512</u>
LIABILITIES AND BUSINESS UNIT EQUITY					
Current liabilities					
Accounts payable					
Trade	—	45,915			45,915
Other	—	11,167	5,000	(d)	16,167
Accrued liabilities	—	17,620			17,620
	—	74,702			79,702
Promissory note	—	—	125,000	(a)	125,000
Employee future benefits	—	25,700			25,700
Future income taxes	—	95,284	(95,284)	(c)	—
	—	195,686			230,402
Business unit equity	—	640,824	(640,824)	(a)	—
Partners' equity	2		515,824	(a)	
			95,284	(c)	
	—		(5,000)	(d)	606,110
	<u>2</u>	<u>640,824</u>			<u>606,110</u>
	<u>2</u>	<u>847,959</u>			<u>836,512</u>

CANFOR PULP LIMITED PARTNERSHIP

PRO FORMA STATEMENT OF OPERATIONS

(Unaudited)

For the year ended December 31, 2005

(in thousands of Canadian dollars)

	Canfor Pulp Limited Partnership	Pulp Business	Pro forma adjustments	(Note 3)	Pro forma Canfor Pulp Limited Partnership
	<u>\$</u>	<u>\$</u>	<u>\$</u>		<u>\$</u>
Sales					
Pulp	—	637,198			637,198
Paper	—	117,630			117,630
Wood chips and commissions	—	29,055			29,055
	<u>—</u>	<u>783,883</u>			<u>783,883</u>
Costs and expenses					
Manufacturing and product costs	—	591,025			591,025
Freight and distribution costs	—	113,979			113,979
Amortization	—	47,204			47,204
Selling and administration	—	19,682			19,682
	<u>—</u>	<u>771,890</u>			<u>771,890</u>
Operating earnings	—	11,993			11,993
Transaction costs	—	—	5,000	(d)	5,000
Interest expense	—	—	10,000	(b)	10,000
Earnings (loss) before income taxes	—	11,993			(3,007)
Income taxes expense (recovery)	—	1,815	(1,815)	(c)	—
Net earnings (loss) for the year	<u>—</u>	<u>10,178</u>			<u>(3,007)</u>

CANFOR PULP LIMITED PARTNERSHIP

NOTES TO PRO FORMA FINANCIAL STATEMENTS

(Unaudited)

December 31, 2005

(in thousands of Canadian dollars)

1 Transactions

The unaudited pro forma consolidated statement of operations and balance sheet give effect to the following proposed transactions:

- The creation of the Canfor Pulp Limited Partnership (the "Partnership"), established under the laws of Manitoba to carry on the business of purchasing, owning and maintaining the NBSK pulp and paper business ("Pulp Business") of Canadian Forest Products Ltd. ("CFP"), a subsidiary of Canfor Corporation.
- Class A LP Units are issued under the Partnership Agreement between CFP, as initial limited partner, and CFX Holding Inc. (the "General Partner"), as general partner. By shareholders agreement, CFP will be entitled to elect the majority of the directors on the board of the General Partner, and, consequently, to appoint the majority of the Trustees of the Canfor Pulp Trust ("Trust") until CFP's indirect interest in the Fund is reduced below 30%, CFP will retain at least 95% of the outstanding shares of the General Partner for at least eight months after the transaction.
- CFP will transfer the Pulp Business on a tax deferred basis to the Partnership in exchange for a \$125 million promissory note, 14.253 million Class A Limited Partnership Units ("Class A LP Units"), and 57.012 million Class B Exchangeable Limited Partnership Units ("Class B Exchangeable LP Units"). The Class A LP Units represent a 20% interest in the Partnership, and the Class B Exchangeable LP Units represent 79.999% interest in the partnership. The Class B Exchangeable LP Units are exchangeable for Fund Units on a one for one basis at the option of CFP.
- The payment of transaction expenses and expenses relating to the Fund.

2 Basis of presentation

The Partnership was formed on April 21, 2006, under the laws of Manitoba to acquire the Pulp Business of Canfor Corporation. The Pulp Business consist of two northern bleached softwood kraft pulp (NBSK) mills and an NBSK pulp and paper mill located in Prince George, British Columbia.

Net earnings per Partnership unit is based upon 71.265 million units which consist of 14.253 million Class A LP Units and 57.012 Class B Exchangeable LP Units.

The unaudited pro forma consolidated balance sheet of the Partnership as at December 31, 2005 and the unaudited pro forma consolidated statement of earnings of the Partnership for the year ended December 31, 2005, have been prepared by isolating the balance sheet and the statements of earnings of the Pulp Business on a carve out basis.

The unaudited pro forma consolidated financial statements should be read in conjunction with the financial statements of the Pulp Business for the year ended December 31, 2005, as presented in the information circular.

The pro forma adjustments are tentative and are based on available information and certain estimates and assumptions, as presented in note 3. The actual adjustments to the consolidated financial statements of the Partnership will depend on a number of factors, including changes in the operating results of the Pulp Business between December 31, 2005 and the actual transaction date. However, the General Partner believes that the assumptions are reasonable and present the effects of the contemplated transaction, and that the pro forma adjustments are properly applied in the pro forma consolidated financial statements.

The pro forma consolidated financial statements are not intended to reflect the results of operations which would have actually resulted had the transaction and other pro forma adjustments been effected on the dates indicated. Further, the pro forma consolidated statements of earnings are not necessarily indicative of the results of operations that may be obtained by the Fund in the future.

3 Pro forma adjustments and assumptions

The following assumptions and adjustments have been made to the unaudited pro forma consolidated balance sheet and income statement assuming that the following transactions had been effected January 1, 2005 for the unaudited pro forma consolidated statements of earnings and effective December 31, 2005 for the unaudited pro forma consolidated balance sheet:

- a) CFP will transfer the Pulp Business to the Partnership in exchange for

	\$
Promissory Note	125,000
14.253 million Class A LP Units	155,000
57.012 million Class B Exchangeable LP Units	360,824
	640,824

- b) The Partnership is expected to incur annual financing costs, including interest payable under the Promissory Note, of \$10,000.
- c) The Partnership is a non taxable entity under the Income Tax Act (Canada) and the Partnership and General Partner will not incur income taxes. This results in the reduction of income tax expense of \$1,815 for the year ended December 31, 2005.
- d) The payment of transaction expenses by the Limited Partnership of \$5.0 million.

CANFOR CORPORATION
NBSK PULP AND PAPER BUSINESS UNIT

FINANCIAL STATEMENTS
December 31, 2005, 2004 and 2003
(expressed in thousands of Canadian dollars)

Auditors' Report

To the Board of Directors of Canfor Corporation

We have audited the balance sheets of the NBSK Pulp and Paper Business Unit of Canfor Corporation, as described in note 1 to the accompanying financial statements, as at December 31, 2005 and 2004 and the statements of operations, changes in business unit equity and cash flows for each of the years in the three-year period ended December 31, 2005. These financial statements are the responsibility of Canfor Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. 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, these financial statements present fairly, in all material respects, the financial position of the NBSK Pulp and Paper Business Unit of Canfor Corporation as at December 31, 2005 and 2004 and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2005 in accordance with Canadian generally accepted accounting principles.

(signed) PricewaterhouseCoopers LLP
Chartered Accountants

Vancouver, British Columbia
February 13, 2006

CANFOR CORPORATION
NBSK PULP AND PAPER BUSINESS UNIT

BALANCE SHEETS

As at December 31, 2005 and 2004
(expressed in thousands of Canadian dollars)

	<u>2005</u>	<u>2004</u>
	<u>\$</u>	<u>\$</u>
ASSETS		
Current assets		
Cash	648	1,431
Accounts receivable		
Trade	85,546	95,895
Other	9,928	10,410
Inventories (note 3)	106,563	114,319
Prepaid expenses	<u>2,597</u>	<u>2,415</u>
	205,282	224,470
Property, plant and equipment (note 4)	631,138	635,310
Long-term advances and deposits	<u>90</u>	<u>107</u>
	<u>836,510</u>	<u>859,887</u>
LIABILITIES AND BUSINESS UNIT EQUITY		
Current liabilities		
Accounts payable		
Trade	45,915	57,718
Other	11,167	23,138
Accrued liabilities	<u>17,620</u>	<u>5,589</u>
	74,702	86,445
Employee future benefits (note 5)	25,700	21,537
Future income taxes — net (note 6)	<u>95,284</u>	<u>102,367</u>
	195,686	210,349
Business unit equity (note 1)	<u>640,824</u>	<u>649,538</u>
	<u>836,510</u>	<u>859,887</u>
Commitments and contingencies (note 9)		

Approved by the Board of Directors

(signed) R.L. Cliff
Director

(signed) J.A. Shepherd
Director

CANFOR CORPORATION
NBSK PULP AND PAPER BUSINESS UNIT

STATEMENTS OF CHANGES IN BUSINESS UNIT EQUITY

For the years ended December 31, 2005, 2004 and 2003

(expressed in thousands of Canadian dollars)

	<u>2005</u> \$	<u>2004</u> \$	<u>2003</u> \$
Business unit equity — Beginning of year	649,538	622,614	656,454
Net earnings for the year	10,178	23,144	3,106
Net transactions with Canadian Forest Products Ltd.	<u>(18,892)</u>	<u>3,780</u>	<u>(36,946)</u>
Business unit equity — End of year	<u>640,824</u>	<u>649,538</u>	<u>622,614</u>

CANFOR CORPORATION
NBSK PULP AND PAPER BUSINESS UNIT

STATEMENTS OF OPERATIONS

For the years ended December 31, 2005, 2004 and 2003
(expressed in thousands of Canadian dollars)

	<u>2005</u> \$	<u>2004</u> \$	<u>2003</u> \$
Sales			
Pulp	637,198	697,097	656,267
Paper	117,630	126,148	115,198
Wood chips and commissions	<u>29,055</u>	<u>26,420</u>	<u>19,108</u>
	<u>783,883</u>	<u>849,665</u>	<u>790,573</u>
Costs and expenses			
Manufacturing and product costs	591,025	629,695	604,388
Freight and other distribution costs	113,979	115,089	112,706
Amortization	47,204	45,676	45,733
Selling and administration	<u>19,682</u>	<u>20,657</u>	<u>19,925</u>
	<u>771,890</u>	<u>811,117</u>	<u>782,752</u>
Earnings before income taxes	11,993	38,548	7,821
Provision for income taxes (note 6)	<u>1,815</u>	<u>15,404</u>	<u>4,715</u>
Net earnings for the year	<u><u>10,178</u></u>	<u><u>23,144</u></u>	<u><u>3,106</u></u>

CANFOR CORPORATION
NBSK PULP AND PAPER BUSINESS UNIT

STATEMENTS OF CASH FLOWS

For the years ended December 31, 2005, 2004 and 2003
(expressed in thousands of Canadian dollars)

	<u>2005</u> \$	<u>2004</u> \$	<u>2003</u> \$
Cash flows from operating activities			
Net earnings for the period	10,178	23,144	3,106
Items not affecting cash			
Amortization	47,204	45,676	45,733
Future income taxes	(7,083)	(5,990)	(6,090)
Employee future benefits	4,162	6,027	5,157
Loss (gain) on asset disposals	(43)	99	(189)
	<u>54,418</u>	<u>68,956</u>	<u>47,717</u>
Changes in non-cash working capital			
Accounts receivable	10,832	(10,716)	(3,240)
Inventories	7,756	(6,922)	980
Prepaid expenses	(182)	380	(245)
Accounts payable and accrued liabilities	(11,743)	4,454	15,445
	<u>61,081</u>	<u>56,192</u>	<u>60,657</u>
Cash flows from investing activities			
Long-term investments	17	14	32
Purchase of property, plant and equipment	(51,417)	(86,417)	(23,308)
Electrical co-generation incentive (note 9)	8,347	25,999	—
Proceeds on asset disposals	81	319	189
	<u>(42,972)</u>	<u>(60,085)</u>	<u>(23,087)</u>
Cash flows from financing activities			
Net transactions with Canadian Forest Products Ltd.	(18,892)	3,780	(36,946)
(Decrease) increase in cash	(783)	(113)	624
Cash — Beginning of year	<u>1,431</u>	<u>1,544</u>	<u>920</u>
Cash — End of year	<u><u>648</u></u>	<u><u>1,431</u></u>	<u><u>1,544</u></u>

CANFOR CORPORATION
NBSK PULP AND PAPER BUSINESS UNIT

NOTES TO FINANCIAL STATEMENTS

December 31, 2005, 2004 and 2003

(expressed in thousands of Canadian dollars)

1 Business description and basis of presentation

These financial statements have been prepared in connection with the sale of two Northern bleached softwood kraft (NBSK) pulpmills and an NBSK pulp and kraft paper mill (the "Mills") located in Prince George, British Columbia, Canada (the "Pulp Business") owned by a subsidiary of Canfor Corporation ("Canfor"). These financial statements present the historic financial position, results of operations, and cash flows of the Pulp Business on a carve out basis from Canfor as if operated as a stand-alone entity subject to Canfor control.

All pulp produced by the Pulp Business is sold by the Pulp Business' sales and marketing department to customers in North America, Europe and Asia. The kraft paper produced by the Pulp Business is sold by a 50% owned joint venture to customers in North America and Europe. The accompanying financial statements include allocations of certain corporate assets, liabilities and costs. The financial condition, results of operations, and cash flows of the Pulp Business are not necessarily indicative of the financial condition, results of operations or cash flows that would have been incurred if the Pulp Business was a separate legal entity.

The statements of operations include selling and administration expenses of the pulp segment that have been allocated to the Pulp Business based on specific identification and, where specific identification has been deemed impractical, on a basis that management believes reasonably reflects the cost of services provided. Employee benefits, consisting of such costs as pension, health and welfare and payroll taxes are based on a percentage of actual payroll or allocated payroll charges to the Pulp Business. Amortization is based upon specific identification of the assets utilized in the Pulp Business. Allocated corporate expenses have been charged to the Pulp Business based on specific identification or, when this is deemed impractical, on a basis that management believes reasonably reflects the cost of services provided. Management believes these expense allocations adequately reflect the estimated cost of services provided but may not necessarily be indicative of actual costs that would have been incurred if Canfor had not provided these services.

The balance sheets include all assets and liabilities directly attributable to the Pulp Business including an allocation of certain corporate assets and liabilities. Employee future benefit liabilities include the obligations for health care and other non-pension benefits for the active salaried employees and active and retired hourly employees of the Pulp Business. The Pulp Business participated in the centralized cash management systems of Canfor, and as a result, did not have separate cash accounts, except for cash held in offshore marketing operations.

2 Significant accounting policies

Parent company cash flows

Operating transactions such as sales of products and purchases of products and services are settled in the divisional equity account as they occur; accordingly, for purposes of the cash flow statement, no adjustment is required for changes in the amounts due to or from Canfor. The excess cash flows of the Pulp Business transferred to the central cash management system of Canfor are reported as financing activities.

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. It is reasonably possible that circumstances may arise that cause actual results to differ from management estimates; however, management does not believe it is likely that such differences will materially affect the Pulp Business' financial position.

Significant areas requiring the use of management estimates are, inventory valuations, amortization rates, employee benefit plan assumptions, and environmental obligations.

Valuation of inventories

Inventories of pulp and paper products are valued at the lower of average cost and net realizable value. Wood chips are valued at average cost or the greater of net realizable value and replacement cost if lower than average cost. Processing materials and supplies are valued at the lower of average cost and replacement cost.

Property, plant and equipment

The Pulp Business capitalizes the costs of major replacements, extensions and improvements to plant and equipment.

Assets are amortized over the following estimated productive lives:

Buildings	10 to 50 years
Pulp and paper machinery and equipment	20 years

Amortization of manufacturing assets is calculated on a straight line basis. Assets under construction are not amortized.

Employee benefit plans

The Pulp Business participates, together with its parent company, in a group defined benefit plan (Group Plan) providing pension benefits to most of its salaried employees. The assets of the Group Plan are not segregated for each participating entity and are used to provide pensions to all members of this plan. As a result, the Pulp Business is required to account for the Group Plan as a multi-employer plan whereby contributions are expensed as paid. Certain offshore marketing entities provide pension benefits for salaried employees and these obligations are recorded in the liabilities of the Pulp Business. For hourly employees covered by industry CEP and PPWC union defined benefit pension plans, earnings are charged with the Pulp Business contributions required under the collective agreements.

The Pulp Business also provides health care benefits to eligible retired salaried employees through participation in the parent company plan and to eligible hourly employees as required under collective agreements. The obligations for these non-pension retiree benefits are recorded in the liabilities of the Pulp Business using the projected benefit actuarial method.

Revenue recognition

Revenues are derived from the following major product lines: pulp, paper, wood chips and sales commissions. Revenue is recognized from product sales when persuasive evidence of a sale exists, the sales price is fixed and determinable, goods have been delivered and collectibility is reasonably assured. Sales are reported net of discounts, allowances and vendor rebates. Amounts charged to customers for shipping and handling are recognized as revenue, and shipping and handling costs incurred by the company are reported as cost of sales.

Foreign currency translation

The majority of sales are denominated in foreign currencies. Foreign currencies are translated into Canadian dollars using the temporal method as follows: monetary assets and liabilities at year end exchange rates; and revenues and expenses at exchange rates prevailing at the time the transaction occurs. Exchange gains and losses are reflected in income as incurred.

Derivative financial instruments

The Pulp Business utilizes derivative financial instruments in the normal course of its operations as a means to manage its foreign exchange and commodity price risk. For example, from time to time, it purchases foreign exchange forward contracts to hedge anticipated sales to customers in the United States and the related accounts receivable and also enters into swap transactions to reduce its exposure to fluctuating natural gas prices. The Pulp Business policy is not to utilize derivative financial instruments for trading or speculative purposes.

The Pulp Business formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives to specific assets and liabilities or to specific firm commitments or forecasted transactions. The Pulp Business also formally assesses, both at the inception of the hedge and on an ongoing basis, whether the derivatives that are used in hedging transactions are effective in offsetting changes in fair values or cash flows of hedged items.

Gains and losses on forward foreign exchange contracts used to hedge US dollar denominated sales are recognized as an adjustment to revenue at the time that the contract is exercised. Gains and losses on natural gas swaps are recognized as an adjustment to manufacturing costs when the contracts are settled.

Impairment of long-lived assets

Long-lived assets are reviewed for impairment when the occurrence of events or changes in circumstances indicate that the carrying value of the assets may not be recoverable, as measured by comparing of their net book value to the estimated future cash flows generated by their use. Impaired assets are recorded at fair value, determined principally using discounted future cash flows expected from their use and eventual disposition.

Interest expense

No interest expense is allocated to the Pulp Business by Canfor.

Income taxes

The Pulp Business is included in the Canfor income tax returns. Income taxes are provided for the Pulp Business as if it were a separate legal entity that incurs and pays taxes at the estimated statutory rate, including provincial taxes. These financial statements include an allocation of future income taxes of Canfor, which are recorded using the liability method. Under this method, future income tax assets and liabilities are determined based on the temporary differences between the accounting basis and the tax basis of assets and liabilities. These temporary differences are measured using the current tax rates and laws expected to apply when these differences reverse. Future tax benefits are recognized to the extent that realization of such benefits is considered more likely than not. The effect on future tax assets and liabilities of a change in income tax rates is recognized in earnings in the period that the substantive enactment date of the change occurs.

3 Inventories

	<u>2005</u>	<u>2004</u>
	\$	\$
Pulp	42,049	47,406
Paper	11,476	10,706
Wood chips	8,973	14,250
Processing materials and supplies	44,065	41,957
	<u>106,563</u>	<u>114,319</u>

4 Property, plant and equipment

	<u>2005</u>		
	<u>Cost</u>	<u>Accumulated</u>	<u>Net</u>
	\$	\$	\$
Land	5,239	—	5,239
Buildings	246,138	138,695	107,443
Pulp and kraft paper machinery and equipment	1,467,534	952,336	515,198
Construction in progress	3,258	—	3,258
	<u>1,722,169</u>	<u>1,091,031</u>	<u>631,138</u>
	<u>2004</u>		
	<u>Cost</u>	<u>Accumulated</u>	<u>Net</u>
	\$	\$	\$
Land	5,239	—	5,239
Buildings	238,685	132,146	106,539
Pulp and kraft paper machinery and equipment	1,418,625	919,601	499,024
Construction in progress	24,508	—	24,508
	<u>1,687,057</u>	<u>1,051,747</u>	<u>635,310</u>

5 Employee future benefits

	<u>2005</u>	<u>2004</u>
	\$	\$
Accrued Japanese pension benefit obligations	853	978
Non-pension benefit plan obligations	24,847	20,559
	<u>25,700</u>	<u>21,537</u>

Pension Benefits Plans

The Pulp Business Pension Benefit Plans, together with its parent company, maintains defined benefit pension plans for most of its salaried employees and for its hourly employees covered under collective agreements.

The expense recognized in the year for providing the pension benefits is as follows:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
	\$	\$	\$
Japanese pension benefit plans	34	133	108
Salaried employees — multi-employer plan	4,016	4,168	1,458
Union employees — collective agreement	6,934	7,096	6,975
Benefit plan expense recognized in the year	<u>10,984</u>	<u>11,397</u>	<u>8,541</u>

The assets of the salaried employees defined benefit plan are combined with those of the Parent Company (a multi-employer plan) and are not segregated for each participating entity. Accordingly, the assets and benefit obligations are not recorded on the balance sheet of the Pulp Business and contributions are expensed as paid. In the event that the Pulp Business ceased to participate in the multi-employer plan, the funded status of the pension obligations would be dependent on the amount of assets transferred to the Pulp Business at the time of segregation, and therefore cannot be determined at this time.

Non-pension benefits plans

The Pulp Business also provides other post-employment benefits which include a range of health care and other benefits. Information about the Pulp Business non-pension retirement benefits is as follows:

	<u>2005</u>	<u>2004</u>
	<u>\$</u>	<u>\$</u>
Benefit plan obligations		
Accrued benefit obligation		
Beginning of year	39,410	44,223
Current service cost	1,088	1,343
Interest cost	2,611	2,953
Benefit payments	(582)	(553)
Actuarial loss (gain)	10,712	(8,556)
End of year	<u>53,239</u>	<u>39,410</u>
Reconciliation of the Funded Status of the Benefit Plans to the amounts recorded in the financial statements		
Fair market value of plan assets	—	—
Accrued benefit obligation		
Funded status of plans — surplus (deficit)	(53,239)	(39,410)
Employer contributions after measurement date	159	—
Unamortized transitional amount	7,855	8,640
Unamortized net actuarial loss	<u>20,378</u>	<u>10,211</u>
Accrued benefit (liability)	<u>(24,847)</u>	<u>(20,559)</u>

The expense for company sponsored non-pension benefit plans is as follows:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
	<u>\$</u>	<u>\$</u>	<u>\$</u>
Current service cost — net of employee contributions	1,088	1,343	1,031
Interest cost	2,611	2,953	2,676
Actuarial loss	386	1,040	780
Amortization of transitional obligation	<u>785</u>	<u>785</u>	<u>785</u>
	<u>4,870</u>	<u>6,121</u>	<u>5,272</u>

Significant assumptions

The actuarial assumptions used in measuring the Pulp Business' non-pension benefit plan provisions are as follows:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
	<u>%</u>	<u>%</u>	<u>%</u>
Accrued benefit obligation as of December 31:			
Discount rate	5.25	6.5	6.5
Benefit costs for year ended December 31:			
Discount rate	6.5	6.5	7.25
Assumed health care cost trend rates (weighed average assumptions) for expense			
Initial health care cost trend rate	6.10	5.70	5.70
Ultimate health care trend rate	4.28	4.23	4.23
Year ultimate rate is reached	2011	2010	2009

Sensitivity analysis

Assumed health care cost trend rates have a significant effect on the amounts reported for the other benefit plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects for 2005:

	<u>1%</u>	<u>1%</u>
	<u>increase</u>	<u>decrease</u>
	<u>\$</u>	<u>\$</u>
Accrued benefit obligation	65.1	44.0
Total service and interest cost	4.6	3.0

6 Income taxes

The tax effects of the significant components of temporary differences that give rise to future income tax assets and liabilities are as follows:

	<u>2005</u>	<u>2004</u>
	\$	\$
Future income tax assets		
Post employment benefits	8,473	7,298
Future income tax liabilities		
Depreciable capital assets	<u>(103,757)</u>	<u>(109,665)</u>
Future income taxes — net	<u>(95,284)</u>	<u>(102,366)</u>

The components of income tax expense (recovery) are as follows:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
	\$	\$	\$
Future	(7,083)	(5,990)	(6,090)
Current	<u>8,898</u>	<u>21,394</u>	<u>10,805</u>
	<u>1,815</u>	<u>15,404</u>	<u>4,715</u>

The reconciliation of income taxes calculated at the statutory rate to the actual income tax provision is as follows:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
	\$	\$	\$
Net income before income taxes	<u>11,993</u>	<u>38,548</u>	<u>7,821</u>
Income tax expense at statutory tax rate	4,173	13,684	2,855
Large corporation tax	1,371	1,547	1,682
1.5% reduction in British Columbia corporate tax rate	(3,912)	—	—
Other	<u>183</u>	<u>173</u>	<u>178</u>
Income tax expense	<u>1,815</u>	<u>15,404</u>	<u>4,715</u>

7 Financial instruments

Commodity price risk

The Pulp Business uses financial instruments to reduce its exposure to risks associated with pulp prices and energy costs. At December 31, 2005, it had entered into swaps to hedge 1,500 tonnes of pulp at an average price of US\$675 per tonne (2004 — \$nil; 2003 — \$nil). There was an unrealized gain of \$0.1 million on these contracts at December 31, 2005. Commodity swaps hedging future natural gas purchases of 3.3 million Gigajoules were outstanding at the end of the year at an average price of \$6.53 per Gigajoule (2004 — 1.6 million gigajoules; 2003 — 1.2 million gigajoules). There was an unrealized gain of \$11.1 million on these swaps at December 31, 2005 (2004 — \$0.7 million; 2003 — \$0.5 million).

Credit risk

The business unit reviews the credit history of all new customers before extending credit and also performs regular reviews of the credit performance of existing customers. The business unit may require payment guarantees, such as letters of credit, or obtain credit insurance coverage. There was no allowance for doubtful accounts as at December 31, 2005 (2004 — \$28; 2003 — \$nil).

Currency risk

A significant portion of the Pulp Business income from operations is generated from sales denominated in U.S. dollars. In order to manage some of the risk associated with fluctuating exchange rates, the Pulp Business enters into forward exchange contracts from time to time. At December 31, 2005, the Pulp Business had US\$46.4 million of forward contracts outstanding. These contracts were fixed at an average rate of \$1.1702 and have option periods extending through to April 2006. There was an unrecognized gain of \$0.1 million on these contracts at December 31, 2005. In 2005, the business unit realized a gain from forward exchange contracts of \$2.1 million (2004 — \$0.6 million; 2003 — \$2.0 million).

8 Related party transactions

Transactions with related parties occur at fair market value, unless otherwise noted below.

The Pulp Business purchased wood chips and hog fuel from Canfor sawmills in the amount of \$105.0 million in 2005 (2004 — \$142.7 million; 2003 — \$98.2 million) The Pulp Business purchases wood chips from Lakeland Mills Ltd. and Winton Global Lumber Ltd., in which Canfor owns a one-third interest During 2005, Canfor purchased \$11.1 million in wood chips from these entities (2004 — \$15.3 million; 2003 — \$10.7 million).

The Pulp Business markets bleached chemi thermo mechanical pulp production from the Canfor Taylor pulp mill for which it received commissions totalling \$3.0 million in 2005 (2004 — \$nil; 2003 — \$nil).

The Pulp Business sold \$2.0 million of wood chips to Fibreco Export Inc. during 2005 (2004 — \$6.7 million; 2003 — nil), before Canfor disposed of its investment in that company in July, 2005.

9 Commitments and contingencies

The Pulp Business has entered into operating leases for equipment and vehicles used in operations. These leases are paid via charges from Canfor. Minimum lease payments required under the remaining terms of the leases are as follows:

	<u>\$</u>
Year ending December 31	
2006	2,063
2007	1,127
2008	392
2009	227
2010	70
Thereafter	<u>265</u>
Total minimum lease payments	<u><u>4,144</u></u>

Electrical co-generation incentive payments

In 2003, Canfor entered into an agreement with BC Hydro to build an electrical co-generation facility at the Prince George Pulp and Paper Mill. Under the agreement, BC Hydro contributed up to \$45.8 million of the project costs, with Canfor contributing the balance. Incentive payments of \$8.3 million were received from BC Hydro in the first quarter of 2005. Total incentive payments of \$26.0 million were received in 2004. These incentive payments were accounted for as a credit to property, plant and equipment. The project was completed in the second quarter of 2005 at a net cost to the Pulp Business of \$69.6 million. Canfor has entered into a 15-year commitment with BC Hydro for power displacement at the co-generation facility, whereby a proportionate repayment is required should the facility not generate a minimum of 390 gigawatt hours of electricity per year. As required under the agreement, Canfor has posted a letter of credit in the amount of \$21.8 million as security.

Guarantee

Canadian Forest Products Ltd. and two pulp marketing subsidiaries are guarantors of the Canfor Corporation privately placed senior notes payable. As at December 31, 2005, the outstanding balance on these notes was \$638.5 million (2004 — \$720.6).

Legal matters

The Pulp Business is involved in various legal matters arising in the ordinary course of business. The resolution of these matters is not expected to have a material adverse effect on the Pulp Business financial position, results of operations or cash flows.

10 Segmented information^(a)

	<u>Pulp</u> \$	<u>Paper</u> \$	<u>Corporate and other</u> \$	<u>Total</u> \$
Year ended December 31, 2005				
Sales to external customers ^(b)	637,198	117,630	29,055	783,883
Operating income (loss)	16,046	4,081	(8,134)	11,993
Amortization	43,514	3,690	—	47,204
Capital expenditures	50,997	420	—	51,417
Identifiable assets	768,215	77,472	2,272	847,959
Year ended December 31, 2004 ^(d)				
Sales to external customers ^(b)	697,097	126,148	26,420	849,665
Operating income (loss)	53,417	(6,093)	(8,776)	38,548
Amortization	41,789	3,886	—	45,676
Capital expenditures	84,004	2,413	—	86,417
Identifiable assets	780,193	77,550	2,144	859,887
Year ended December 31, 2003 ^(d)				
Sales to external customers ^(b)	656,267	115,198	19,108	790,573
Operating income (loss)	853	1,786	5,181	7,821
Amortization	41,313	4,420	—	45,733
Capital expenditures	17,139	6,169	—	23,308
Identifiable assets	739,134	85,951	3,345	828,430

a) Operations are presented by product lines. Operations are considered to be in one geographic area since all production facilities are in Canada.

b) One customer accounted for 22.9% of the Company's total sales. No other single customer accounted for 10% or more of the Company's total sales.

	<u>2005</u> \$	<u>2004</u> \$	<u>2003</u> \$
Sales by location of customer			
Canada	61,753	67,872	48,659
United States	300,028	291,168	245,643
Europe	212,562	261,059	243,368
Far East	192,344	216,159	224,646
Other	<u>17,196</u>	<u>13,407</u>	<u>28,257</u>
	<u>783,883</u>	<u>849,665</u>	<u>790,573</u>