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The background of the entire page is a blue-tinted photograph of a large building under construction. The steel frame of the building is visible, showing multiple levels and a complex roof structure. In the foreground, there are several stacks of lumber. Each stack is wrapped in white plastic and features the CANFOR logo and the slogan "IT'S TRUE".

# SCOTIA CAPITAL MATERIALS CONFERENCE

June 1, 2006

Presented by:

Jim Shepherd – President & CEO – Canfor Corporation

Paul Richards – President & CEO – Canfor Pulp Income Fund

CANFOR CORPORATION



## Forward-Looking Statement Disclaimer

Certain statements in this presentation, including statements regarding future results and performance, are forward-looking statements based on current expectations. The accuracy of such statements is subject to a number of risks, uncertainties and assumptions that may cause actual results to differ materially from those projected. Factors that could have a material impact on any future oriented statements made herein include, but are not limited to: general economic, market and business conditions; product selling prices; raw material and operating costs; foreign exchange rates; changes in law and public policy; ruling on countervailing and anti-dumping duties; and opportunities available to or pursued by Canfor.

This presentation makes reference to **EBITDA** (operating income before amortization), which Canfor considers to be a key indicator. EBITDA is not a generally accepted earnings measure and should not be considered as an alternative to net income of cash flows as determined in accordance with Canadian GAAP.

Unless otherwise noted, all dollars are expressed in Canadian dollars.

Canfor Corporation is listed on the Toronto Stock Exchange as "CFP" and is based in Vancouver, Canada.

## Operational Repositioning: Last 3 years

### 2004

- Slocan Forest Products acquisition
- Asset review

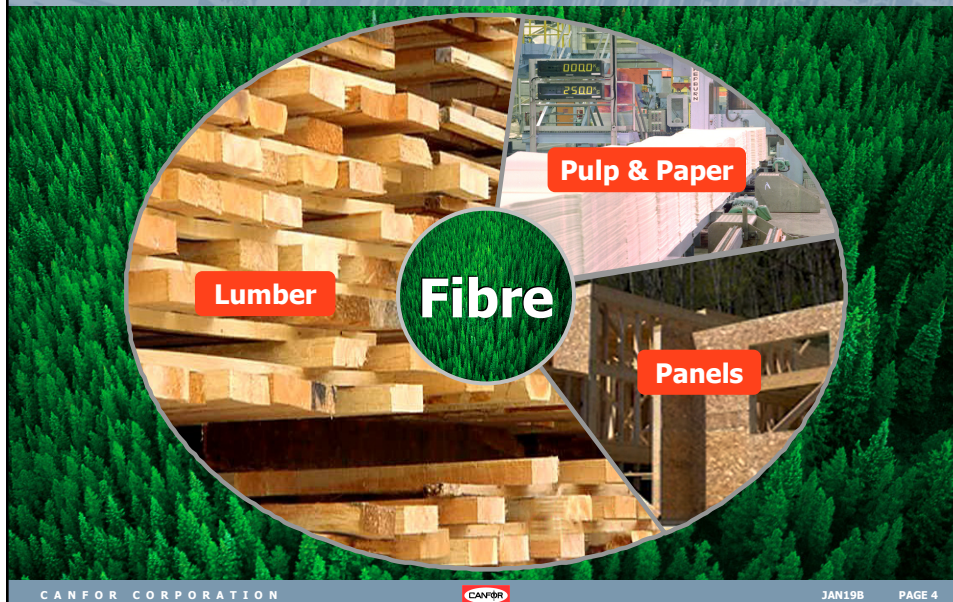
### 2005

- Divestitures and Closures
  - Closed or sold 6 sawmills
- Major capital projects plan
  - Over \$335 million in 2005
- Reorganization of Coastal Assets
  - Englewood and Howe Sound Pulp & Paper

### 2006

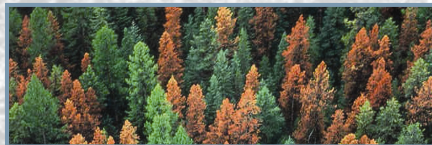
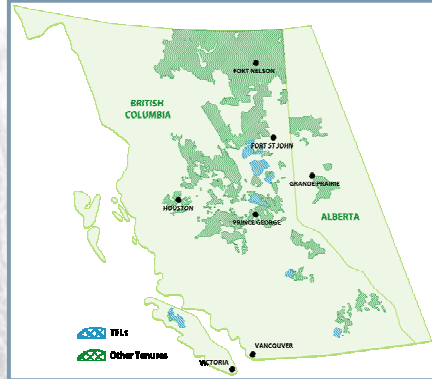
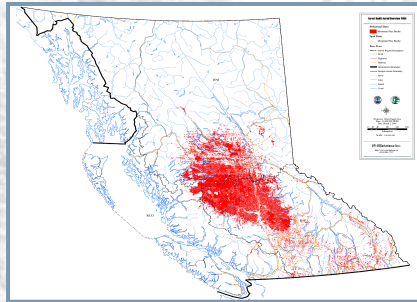
- New South acquisition
- Creation of Canfor Pulp Income Fund

## Business Overview



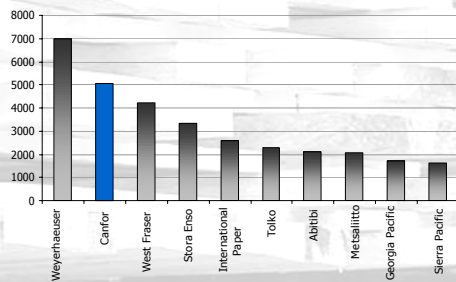
## Fibre

- 10 million m<sup>3</sup> of forest tenure
- High quality, abundant spruce-pine-fir (SPF) fibre
- Commitment to sustainable forest (ISO14001 and CSA/SFI certified)
- Tenure take-back (increase purchase volume)
- Low fibre cost
- Beetle wood opportunity

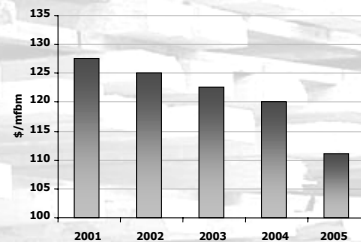


## Lumber

- Primary lumber capacity of 5.1 billion fbm
- Second largest lumber producer
- Largest SPF producer in the world
- 16 sawmills in BC, Alberta, Quebec and North & South Carolina
- Low cost operations

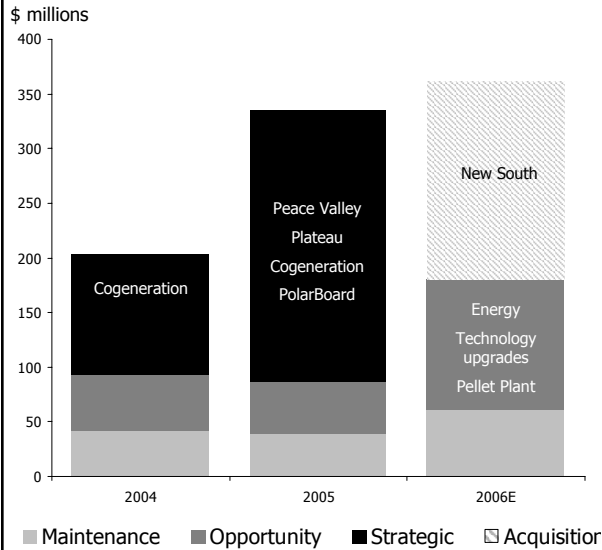


Source: Wood Markets (April 2006)



Cash conversion costs

## Growth



- Rigorous planning
  - Feasibility, concept development, value engineering, conservative assumptions
- Contractor relationships
- Dedicated capital group for projects over \$1 million
- Board committee review
- Independent monitoring
- Post-project appraisals and learnings

## New South acquisition

### Transaction

- All shares of New South Companies for US\$205 million
- Closed March 6, 2006
- Synergies of US\$10 million per annum

### Strategic rationale

- Platform for future growth
  - Top quartile assets in a US growth region
  - Experienced successful management team
- Imports over 600 million board feet of high quality European SPF
- Allows for continued growth with strategic customers
- Diversity from BC and Canada and associated risks
- Product diversification



New South Express



## Panels

- OSB capacity of 1 billion msf 3/8" basis
- Plywood capacity of 450 million msf 3/8" basis
- Low cost operations

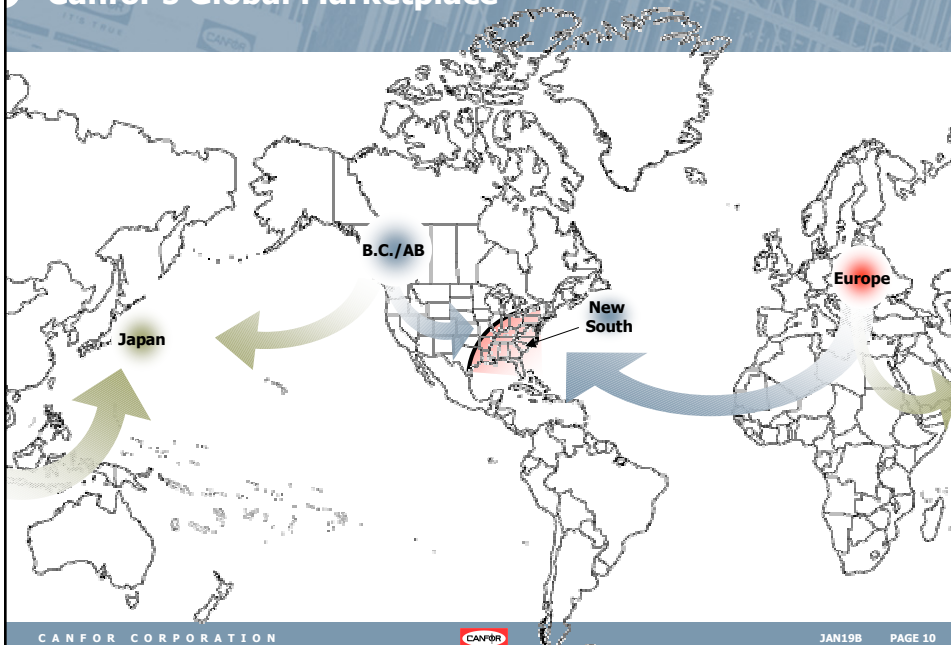
PolarBoard



Peace Valley OSB



## Canfor's Global Marketplace



## Meeting Our Customers' Needs

- Strategic relationships in major market segments
- Leveraging investment in supply chain & systems
- Delivering quality products with quality service



## Diversified Customer Base

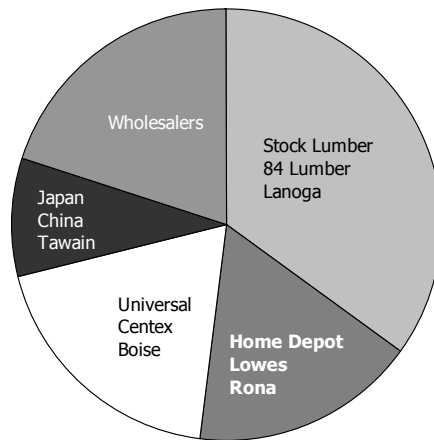
**Growing with the Top 10 customers**

**Increasing committed volumes**

**Increasing margin added volumes**

**Market diversification**

**Leveraging Lumber relationship to Panels**



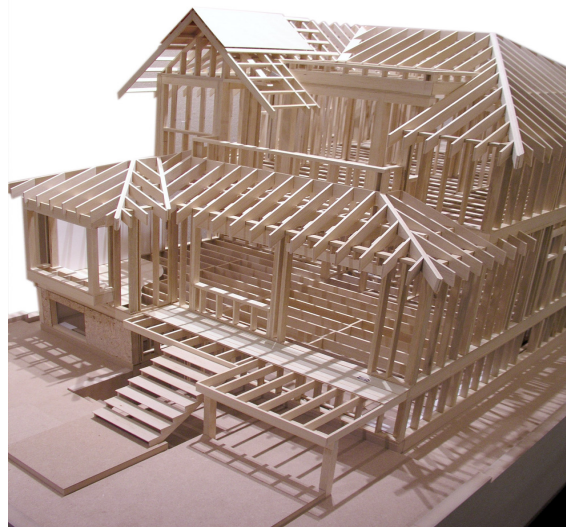
■ Pro-Dealers ■ Home Centres □ Industrial ■ Offshore ■ Other

## Softwood Lumber Agreement Framework

Composite Price Trigger Point	Option A	Option B	
US \$ Random Length Composite Price	Tax	Tax	Quota
<b>355+</b>	0.0%	0.0%	0.0%
<b>335-355</b>	5.0%	2.5%	34.0%
<b>315-335</b>	10.0%	3.0%	32.0%
<b>sub 315</b>	15.0%	5.0%	30.0%

## Canfor's Global Opportunity

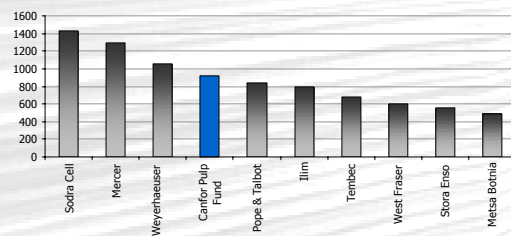
- Global expansion of operations
- Creative in developing other markets
- Continue to expand in lumber, i.e. 2x4 construction technology
- Expansion into complementary products:
  - Engineered wood products
  - Panels
  - Building systems (components)





## Pulp and Paper

- Pulp capacity of 1.2 million tonnes (1.0 mt NBSK and 0.2 mt of BCTMP)
- Kraft paper capacity of 135,000 tonnes
- 4 pulp machines and 1 paper machine
- Howe Sound Pulp & Paper (50% interest) – 392,000 tonnes NBSK and 219,000 tonnes newsprint
- Environmentally sound
- Low cost operations



Source: PPPC & Management Estimates



## Canfor Pulp Income Fund

### Transaction

- Transfer the NBSK pulp mills into an Income Trust with 20% returned to existing Canfor shareholders
- Expected to close late in Q2

### Strategic rationale

- Canfor management focus on the core wood products business – profitability and growth
- Value to shareholders
  - Return of capital
  - Value of income trust structure market
  - Regular cash distribution



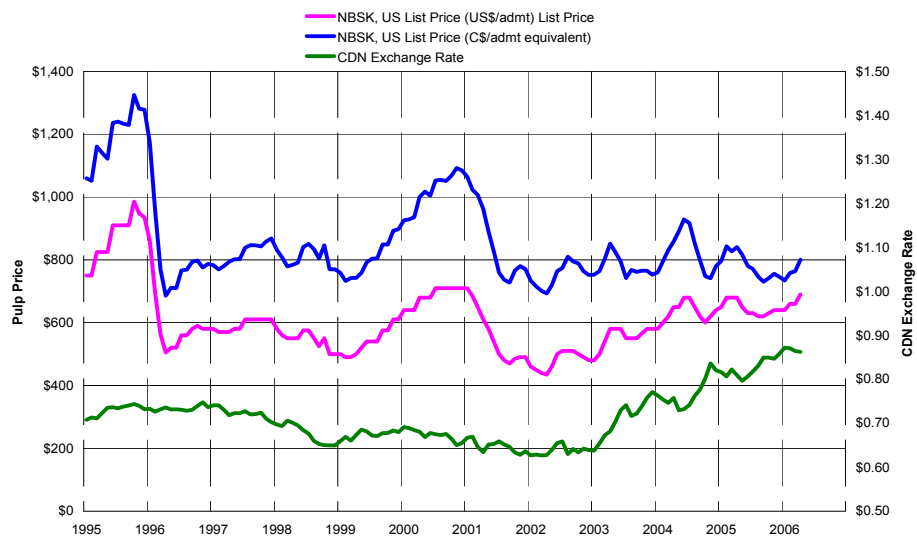
## Canfor Pulp Income Fund

### Advantages of the Canfor Pulp Income Fund:

- Market leadership
- Low cost producer
- Abundant fibre supply
- Supplier of choice to targeted customers
- Strong sponsorship

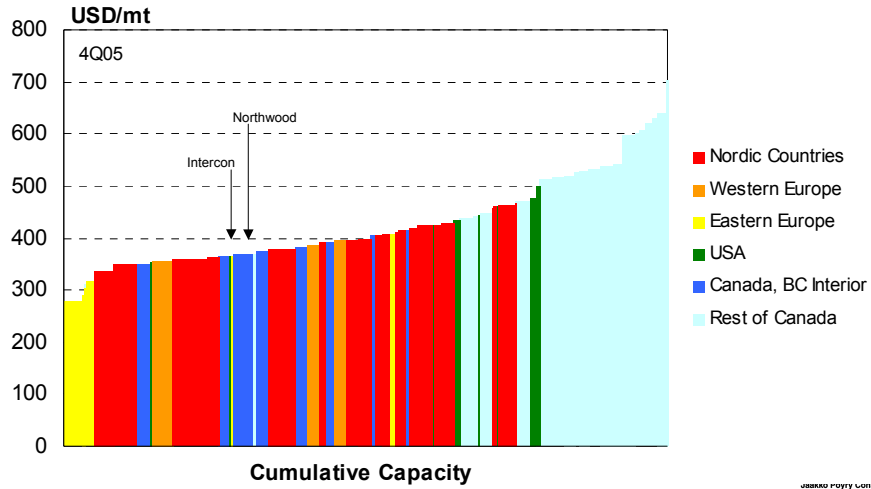
## NBSK Price History & Exchange Rates

Price vs. Foreign Exchange 1995 - Current



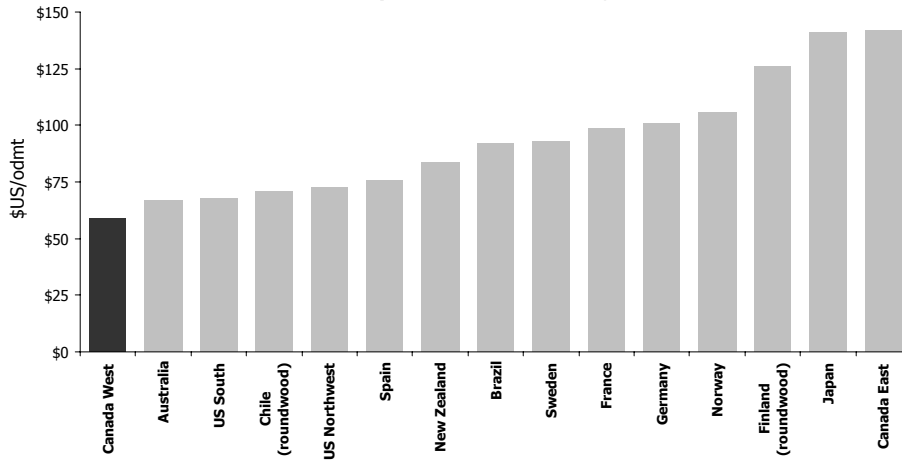
## Low Cost Producer

### Northern Softwood Kraft Manufacturing Costs (Jaakko Poyry Q4/05)



## Fibre Prices

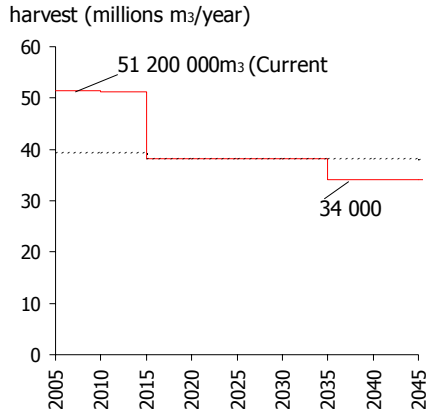
### Conifer Chips - Delivered Prices Q4/05



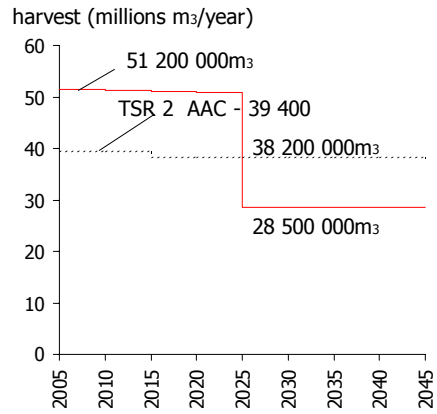
Source: Wood Resources International

## Abundant Fibre Supply

### Mortality rates = 50%



### Mortality rates = 80%



Source : BC Ministry of Forest – Nov 2005

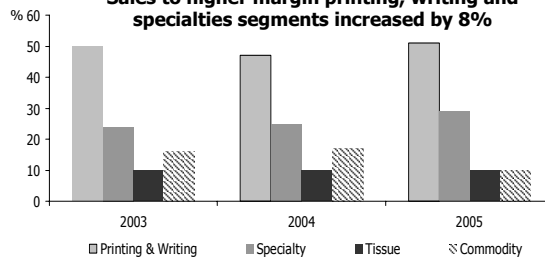
## Marketing

### Improve Mill Returns

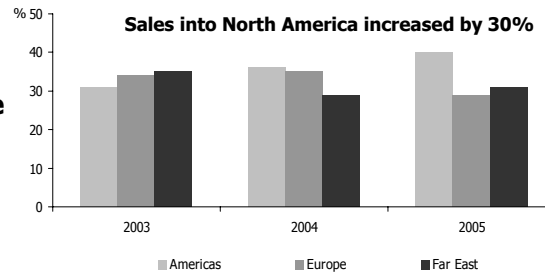
### Drive Out Costs

### Lever Strong Northern Fibre

#### Sales to higher margin printing, writing and specialties segments increased by 8%



#### Sales into North America increased by 30%



## Distributable Cash : 2005 Proforma

EBITDA	<i>\$ millions</i> \$ 59.2
<b>Adjustments:</b>	
• Fibre pricing changes	<b>51.2</b>
• Cogeneration project benefits	<b>22.6</b>
Adjusted EBITDA	133.0
<b>Deductions:</b>	
• Capital expenditures	<b>34.0</b>
• Interest expense	<b>10.0</b>
Estimated distributable cash	89.0
<b>10% hold-back</b>	<b>8.9</b>
Estimated distributable cash	80.1
Estimated distributable cash per unit	\$1.12

*1<sup>st</sup> Distribution: expected August 15 at approx. \$0.10 to \$0.11 per unit*

*2005: Average f/x rate = \$0.828: Average NBSK price = US\$ 611*

## Questions?

"CFP"



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## Financials

<i>C\$ millions</i>	March 2006	Dec 2005
Sales	962.7	3,787.8
EBITDA	83.3	294.0
<i>EBITDA margin</i>	<i>9%</i>	<i>8%</i>
Net income	18.9	96.0
<i>EPS - diluted</i>	<i>\$0.13</i>	<i>\$0.67</i>
Return on Capital Employed (%) <sup>(1)</sup>	2.9%	4.8%
Net debt : Capitalization	26:74	14:86
Duties paid to date (US\$ million)	\$760	-

Market capitalization (@ \$14/share)	\$2.0 billion
Share liquidity (LTM daily average shares traded)	575,000 shares
Number of employees	7,300

*(1) based on a trailing 12 months*

# Canfor Investor Fact Sheet



Canfor is a leading integrated forest products company based in Vancouver, British Columbia.

The company is the largest producer of softwood lumber and one of the largest producers of northern softwood kraft pulp in Canada. Canfor also produces kraft paper, plywood, remanufactured lumber products, oriented strand board (OSB), hardboard paneling and a range of specialized wood products, including baled fibre and fibre mat at 33 facilities located in BC, Alberta, Quebec, Washington State, as well as North and South Carolina.

Canfor has an annual production capability of approximately 5.2 billion board feet of lumber, 450 million square feet of plywood, 1.0 billion square feet of OSB, 1.2 million tonnes of pulp, and 135,000 tonnes of kraft paper.

Additionally, Canfor has approximately 11 million cubic metres of allowable annual cut under its forest tenures, all of which will be ISO 14001 certified.

Canfor (CFP) is listed on the Toronto Stock Exchange.

## EMPLOYEES

Canfor employs approximately 7,300 people as well as an additional 2,200 contractors.

Visit our website [www.canfor.com](http://www.canfor.com) for more information.

## WOODLANDS

Canfor's forest operations in British Columbia, Alberta, and Quebec are located almost exclusively on public lands held under long-term forest tenure agreements with the provincial governments.

## CERTIFICATION

85% of the annual harvest volume from Canfor's forest tenures is certified to the Canadian Standards Association (CSA) Sustainable Forest Management Standard.

All of Canfor's forestry operations have an environmental management system (EMS) in place. The EMS is certified to the International Organization for Standardization (ISO) 14001 with the exception of the Québec operation.

Canfor's objective is to have all of its forestry operations certified to the CSA Sustainable Forest Management and ISO 14001 standards.

## ENVIRONMENTAL STEWARDSHIP

Canfor is committed to maintaining the quality of air, land and water in both its manufacturing and woodlands operations. Over the years, Canfor has invested significant capital in its mills to not only meet but also exceed provincial and national standards of environmental protection. Canfor was one of the first forest products companies in Canada to implement an environmental audit program.

## FINANCIAL HIGHLIGHTS

		2005	2004 <sup>1</sup>
Sales and income <small>(millions of Canadian dollars)</small>	Sales	\$ 3,787.8	\$ 3,925.0
	Operating income	\$ 142.4	\$ 494.5
	Net income	\$ 96.0	\$ 415.5
	EBITDA	\$ 294.0	\$ 634.8
	Earnings per Share	\$ 0.67	\$ 3.22
Financial position <small>(millions of Canadian dollars)</small>	Total assets	\$ 3,830.5	\$ 3,979.6
Additional information <sup>2</sup>	Return on capital employed	4.8%	19.8%
	Return on common shareholders' equity	4.8%	28.8%
	Ratio of current assets to current liabilities	2.4 : 1	2.4 : 1
	Ratio of net debt to common shareholders' equity	14 : 86	13 : 87

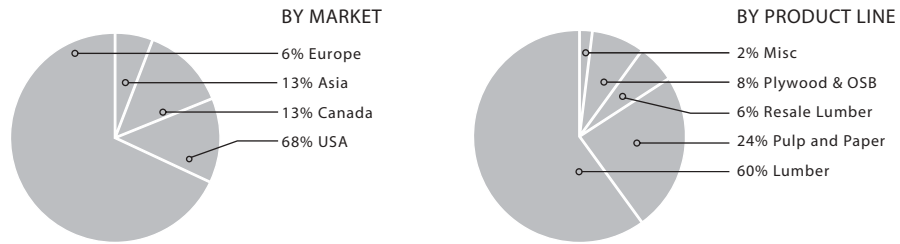
<sup>1</sup> Includes the operating results of the former Slocan operations from April 1, 2004.

<sup>2</sup> See Definitions of Selected Financial Terms on page 90 of the 2005 annual report.



## COMPANY OVERVIEW

### SALES HIGHLIGHTS - 2005



### CANFOR BUSINESS UNITS

#### PRIMARY PRODUCTS

LUMBER      Softwood Lumber

PANELS      Plywood & OSB

PULP & PAPER      Premium Pulp  
Specialty Kraft Paper  
Specialty Pulp

#### PRIMARY MARKETS

House construction and home repairs and renovations

House construction and home repairs and renovations

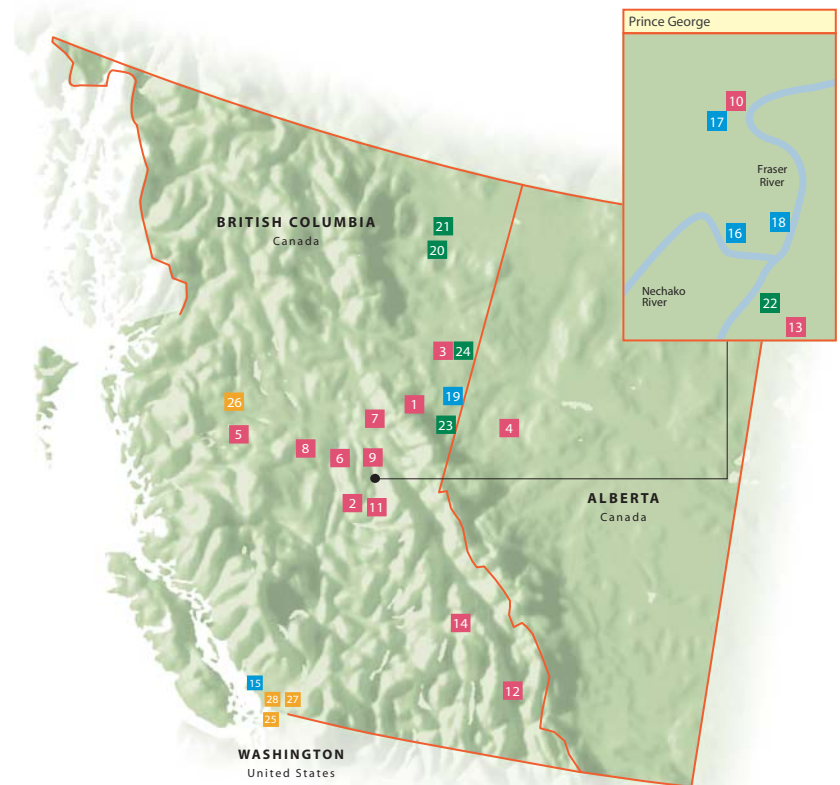
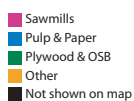
Raw material for paper manufacturing (printing fine, and tissue papers)  
High performance packaging papers and specialty papers  
Raw material for paper manufacturing (base and electrical application papers)

### CANFOR OPERATIONS

#	Operations	Product	2006 Capacity
1	Chetwynd	Lumber	244,000 MFBM
2	Clear Lake	Lumber	186,000 MFBM
3	Ft. St. John	Lumber	217,000 MFBM
4	Grand Prairie	Lumber	240,000 MFBM
5	Houston	Lumber	600,000 MFBM
6	Isle Pierre	Lumber	275,000 MFBM
7	Mackenzie	Lumber	512,000 MFBM
8	Plateau	Lumber	506,000 MFBM
9	Polar	Lumber	275,000 MFBM
10	Prince George	Lumber	360,000 MFBM
11	Quesnel	Lumber	387,000 MFBM
12	Radium	Lumber	170,000 MFBM
13	Rustad	Lumber	383,000 MFBM
14	Vavenby	Lumber	235,000 MFBM
15	Howe Sound *	Pulp	392,000 MT
15	Howe Sound *	Newsprint	219,000 MT
16	Intercontinental (1)	Pulp	312,000 MT
17	Northwood (1)	Pulp	570,000 MT
18	Prince George (1)	Pulp	153,000 MT
18	Prince George (1)	Paper	135,000 MT
19	Taylor	Pulp	212,000 MT
20	Tackama	Plywood (3/8 basis)	267,000 MSF
21	PolarBoard™	OSB (7/16 basis)	650,000 MSF
22	North Central Plywood	Plywood MSF (3/8 basis)	185,000 MSF
23	Panel and Fibre	Panel and Fibre	N/A
24	Peace Valley OSB	OSB (7/16 basis)	820,000 MSF
25	Bellingham	Remanufacturing	215,000 MFBM
26	Kyahwood *	Remanufacturing	72,000 MFBM
27	Uneeda	Remanufacturing	200,000 MFBM
28	Vancouver	(Head Office, Wood Products Marketing, Pulp and Paper Marketing)	
■	Daaquam (Quebec)	Lumber	120,000 MFBM
■	New South Co. (N & S Carolina)	Lumber	425,000 MFBM

\* Owned 50% by Canfor

(1) Subject to shareholder approval in the second quarter of 2006 that these operations will be transferred to a newly created Pulp Income Trust.



Last Updated April 28, 2005



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## The Operations

	Northwood	Intercon	PG Pulp and Paper	
<b>History</b>	<b>1966</b>	<b>1968</b>	<b>1966</b>	
<b>No. of employees</b>	<b>500</b>	<b>300</b>	<b>400</b>	
<b>Capacity (Admt)</b>	<b>570,000</b>	<b>310,000</b>	<b>153,000</b>	<b>135,000</b>
<b>Operations</b>	<b>2-line</b>	<b>1-line</b>	<b>1-line</b>	<b>1-line</b>
<b>Markets</b>	<b>North America, Europe &amp; Asia</b>			<b>North America &amp; Europe</b>
<b>Products</b>	<b>Bleached NBSK</b>		<b>Bleached, Semi-bleached and Unbleached</b>	<b>Bleached and Unbleached</b>
<b>Fibre consumed (Odt's)</b>	<b>2.4 million</b>			
<b>Certification</b>	<b>ISO 9001 and ISO 14001</b>			

## CANFOR PULP INCOME TRUST

### Overview

Canfor Corporation ("**Canfor**") is proposing a reorganization (the "**Spinout**") under which it will transfer its NBSK pulp and paper business (the "**Pulp Business**") to Canfor Pulp Limited Partnership (the "**Partnership**"). The Pulp Business consists primarily 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.

A new pulp trust, Canfor Pulp Income Fund (the "**Fund**"), will be established to hold a 20% indirect interest in the Pulp Business, all of the outstanding units of which ("**Fund Units**") will be distributed to Canfor's Shareholders under the Spinout.

Complete details regarding the Spinout, including the effect of the Spinout on Canfor and a detailed description of the Pulp Business, are contained in Canfor's Information Circular dated April 28, 2006 (the "**Information Circular**") distributed to Canfor Shareholders in connection with the meeting to be held on June 9, 2006 to approve the Spinout. The following is a summary of certain information contained in the Information Circular and is qualified in its entirety by reference to the more detailed information contained or referred to in the Information Circular. Capitalized terms used but not defined herein have the meanings ascribed to them in the Information Circular.

### THE SPINOUT

#### Overview

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 the 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.

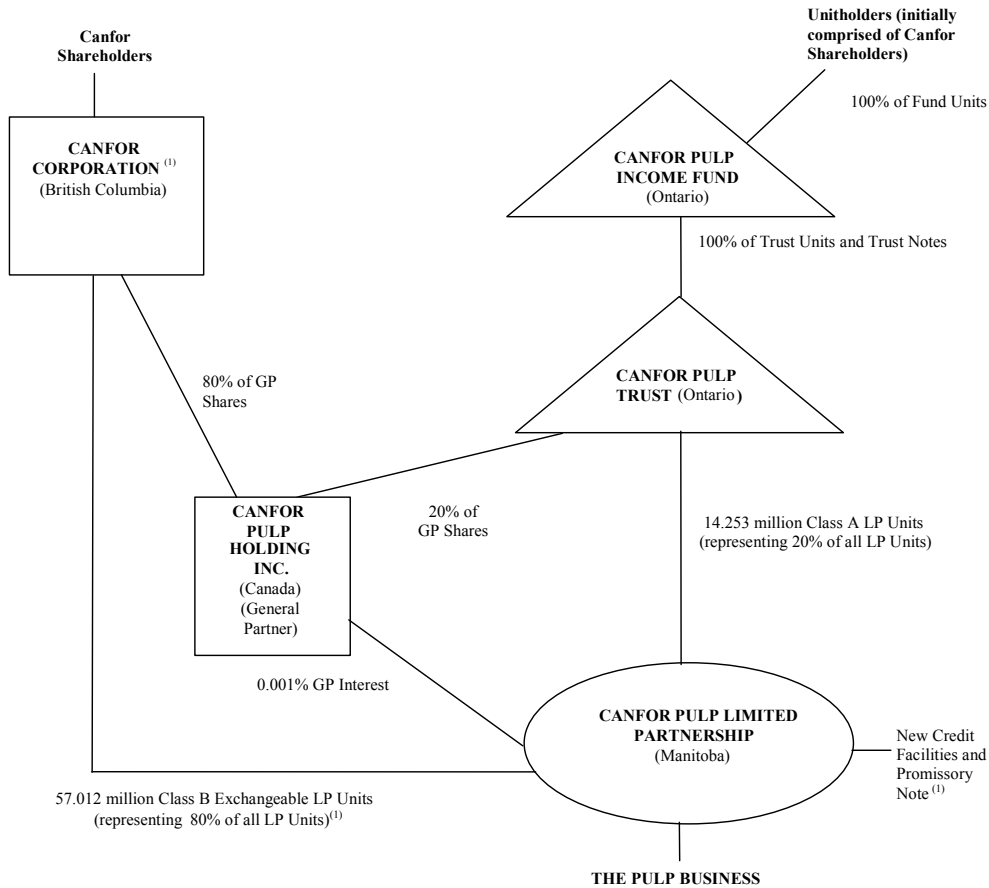
The management of Canfor understands that all of the directors and officers of Canfor presently intend to vote the Canfor Shares owned, or over which control and direction is exercised by them, in favour of the Arrangement Resolution. As of April 25, 2006, the directors and officers of Canfor owned,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

#### 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. 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 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.

## **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 Approval***

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.

## **CANFOR AFTER THE SPINOUT**

### **Overview**

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.

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.

### **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 the 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 to the Information Circular and, in accordance with GAAP, consolidates the Partnership's financial results and shows a 20% minority interest.

*Selected Pro Forma and Historical Financial Information*

	<u>Year Ended December 31,</u>			
	<b>Pro Forma</b>			
	<u>2005</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
	<b>(unaudited)</b>	<b>(audited)</b>		
	<b>(in millions of dollars)</b>			
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*

	<u>Year Ended December 31,</u>		
	<u>2005</u>	<u>2004</u>	<u>2003</u>
	<b>(unaudited)</b>		
Production Statistics			
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

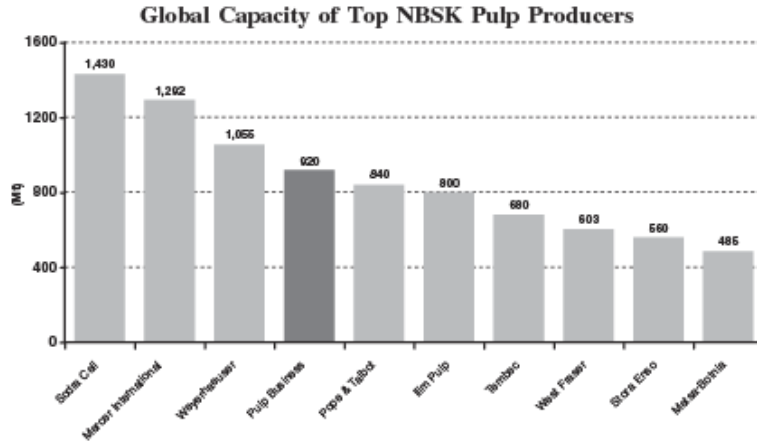
**THE PULP BUSINESS**

**The Partnership**

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.

## 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

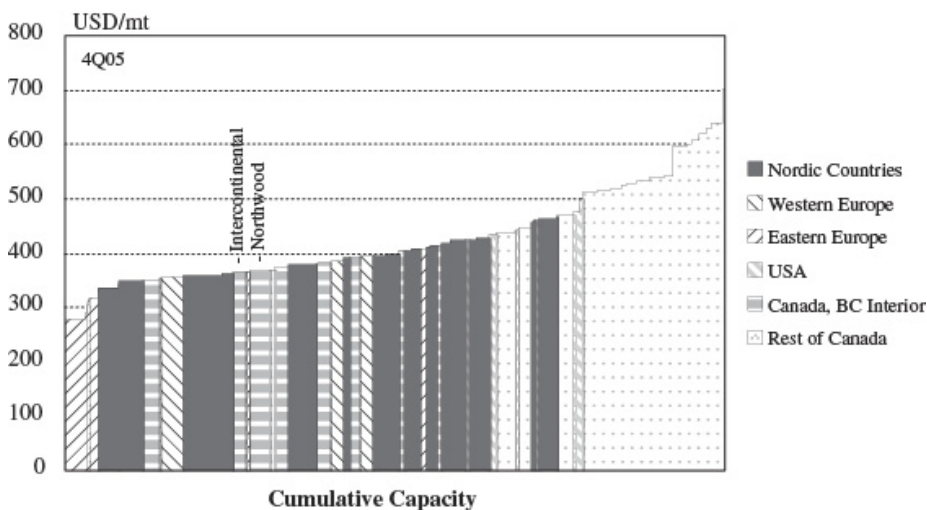
Northwood is a two line pulp mill with annual production of approximately 570,000 ADMT of NBSK Pulp, making it the largest NBSK Pulp facility in North America. Northwood's pulp is used to make a variety of products including printing and writing paper, tissue and specialty papers and is primarily delivered 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

## **Fibre Supply**

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.

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. Pricing under the Fibre Supply Agreement is determined by a market-based formula. This same wood chip pricing formula 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.

## **Cogeneration Project**

Canfor has completed construction of 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 Project is currently generating an average of 950 MWh of electricity per day, which is 89% of the targeted generating capacity of the facility, and has also resulted in a significant increase in steam production and the elimination of 77% of natural gas usage in steam generation.

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.

## **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.

### **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 Lusztyg 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.

### **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 to the Information Circular.

	<b>Year Ended December 31,</b>		
	<b>2005</b>	<b>2004</b>	<b>2003</b>
	<b>(audited)</b>		
	<b>(in millions of dollars)</b>		
<b>Income Statement</b>			
Sales.....	783.9	849.7	790.5
<b>Costs and expenses</b>			
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.....	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>

***Selected Historical Operating Data***

	<b>Year Ended December 31,</b>		
	<b>2005</b>	<b>2004</b>	<b>2003</b>
	<b>(unaudited)</b>		
<b>Production Statistics</b>			
<b>Pulp</b>			
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
<b>Paper</b>			
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***

	<b>Year Ended</b>		
	<b>December 31,</b>		
	<b>2005</b>	<b>2004</b>	<b>2003</b>
	<b>(unaudited)</b>		
	<b>(in millions of dollars)</b>		
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 generally accepted accounting principles (GAAP). See "Disclosure — Supplemental Disclosure" below.

## Summary of Distributable Cash

The following analysis of Distributable Cash was prepared by management and is based on information contained in the 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 the information contained in the Information Circular under the heading "Risk Factors" for a discussion of the risks that could cause actual results to vary.

	<b>Year Ended</b> <b><u>December 31, 2005(1)</u></b> <b>(unaudited)</b> <b>(in millions of dollars</b> <b>except per unit</b> <b>amounts)</b>
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 GAAP. See "Disclosure — Supplemental Disclosure" below.
- (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 information contained in Appendix E to the Information Circular under the heading "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 information contained in Appendix E to the Information Circular under the heading "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 the information contained in Appendix E to the Information Circular under the heading "The Pulp Business — Capital Expenditures".
- (6) Estimated annual interest and financing expense associated with the Promissory Note and the New Credit Facilities. See the information contained in Appendix E to the Information Circular under the heading "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.

## DISCLOSURE

### Forward-Looking Statements

This document and the Information Circular contain forward-looking statements. All statements other than statements of historical fact contained in this Document and in the 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. You 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 the Information Circular under "Risk Factors", and the documents incorporated by reference in the Information Circular, identify factors that could affect the operating results and performance of Canfor and the Fund. You 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 document and in the 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. 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. Please refer to the Information Circular for definitions and additional information in respect of these terms.



## Management Bio's

**Jim Shepherd, Canfor Corporation**  
**President and Chief Executive Officer**

Jim Shepherd was named the President and CEO of Canfor Corporation in 2004 following Canfor's acquisition of Slocan Forest Products Ltd. (Slocan). Jim Shepherd was the President and CEO of Slocan and prior to this appointment he was the President and Chief Operating Officer of Crestbrook Forest Industries Ltd. and President of Finlay Forest Industries Limited. Jim is a Management member of Canfor Corporation's Board of Directors.

Jim received his Mechanical Engineering degree from Queen's University

**Paul Richards, Canfor Pulp Income Fund**  
**President and CEO, Canfor Pulp Limited Partnership**

Paul Richards began his career in 1971 with Irving Pulp and Paper in Saint John, New Brunswick after graduating as a Chemical Engineer.

Paul joined MacMillan Bloedel in 1976 and worked in technical and operational roles until joining Repap in Miramichi in 1984. With Repap, Paul was Vice President and GM at Repap Manitoba from 1989-1993, and Vice President and GM at Repap New Brunswick from 1993-1997.

Prior to joining Canfor in 2005 Paul was Vice President, Pulp Manufacturing for Weldwood, overseeing operations at Hinton and Quesnel from 1997-2004.