CIBC World Markets

Equity Research
Industry Update

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Paper & Forest Products

Sector Weighting:
Underweight

Spotlight On The Paper & Wood Stocks

April 24, 2006 - April 28, 2006

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All figures in Canadian dollars, unless otherwise stated.

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Commodity Price Forecasts

Exhibit 1. Commodity Price Summary

	Units	1995	2000	2003	2004	2005	2006E	2007E	Normalized	Current Price	Comments
NBSK Pulp (N.E.)	m. ton	$880	$680	$525	$617	$611	$650	$670	$655	$650	Rising
Newsprint	m. ton	670	565	503	547	610	670	690	635	670	Rising
Uncoated Freesheet	sh. ton	990	755	628	676	727	780	800	725	840	Rising
Light Weight Coated	sh. ton	1,226	1,065	829	859	997	1,050	1,080	1,030	995	Flat
Linerboard	sh. ton	510	470	421	468	478	530	540	480	565	Rising
Lumber #2&Btr.	Mbf	250	255	278	394	353	340	320	320	340	Rising
OSB	Msf	245	205	380	369	319	280	220	220	265	Rising
Canadian Dollar	US$	0.73	0.67	0.72	0.77	0.83	0.87	0.87	0.87	0.89	Rising

Source: Pulp & Paper Week, Random Lengths, MS Starquotes, CIBC World Markets Inc.

Lumber Dispute: Deal Reached

The Glass Is Half Full

(April 28, 2006)

On April 27, Canadian Prime Minister Stephen Harper announced that Ottawa has reached an agreement with the U.S. that will temporarily end the long running and costly softwood lumber trade dispute. The deal is similar to the draft outlined the day before.

Washington has agreed to return the greater of 80% or US$4 billion of the more than US$5 billion in duties that it has collected, plus interest. Over the next several months, the U.S. customs will stop collecting countervailing and anti-dumping duties, which are presently averaging 10.8%.

In return, Canada will cap its exports at 34% of the U.S. market (Canada's current market share) and collect a sliding tax designed to discourage companies from exceeding the quota. The tax will increase gradually when lumber prices decline below US$355/Mfbm.

Companies that would benefit the most from a duty refund are Canfor (CFP–SP), Interfor (IFP.SV.A–SP), Tembec (TBC–SU) and West Fraser (WFT–SO). Given the public announcements to date, it appears that the federal government has obtained the support of the B.C., Ontario and Quebec provincial governments. The Atlantic provinces would be exempt from the arrangement and have free access to the U.S. market, as a significant portion of their timber comes from private lands. Although there is some chance that B.C. may still opt out of the deal due to concerns over a "non-circumvention" clause, we think the probability of this occurring is very low. However, it will still likely take three to four months to work out the details before a final deal can be signed between the two countries.

Contrary to the views expressed by most of the Canadian financial analysts, we think the deal is acceptable and generally in line with our expectations. As a result, we have not changed any of our recommendations based on this event. While the deal is not what would have been arrived at in a perfect world, it is a reflection of the *real politique* of the situation. There was a window of opportunity to strike a deal, and both sides took advantage of it. Informed sources in Washington indicate that if an agreement was not reached now, then Canada would have likely had to wait to negotiate with the next U.S. president. Those pundits who are very critical of the deal should bare this in mind — it is highly unlikely we would have attained an enforceable legal win.

The deal has likely secured a temporary peace in this dispute until 2011/12, when the next round will likely start. By that time, the supply/demand situation and cost situation will be totally different. Our view is that within five to seven years, Canada will not be able to produce the quota anyway due to reduced mature log supply and aggregate capacity.

The other main terms of the deal are as follows:

- **Balance of the duties:** More than US$500 million in Canadian duties would go to U.S. companies (members of the U.S. Coalition for Fair Lumber Imports) and another US$500 million would go towards projects such as rebuilding New Orleans and lumber marketing efforts. It is not surprising that the U.S. Coalition, the lobby group behind the lumber duties, applauds the deal.

- **Duration:** The agreement will be for a term of seven years, and may be renewed for two years.

- **Exit ramp:** The U.S. will make "best efforts" to define within the next 18 months how provinces might exit the quotas and the taxes by reforming their forest policies towards a market-based system.

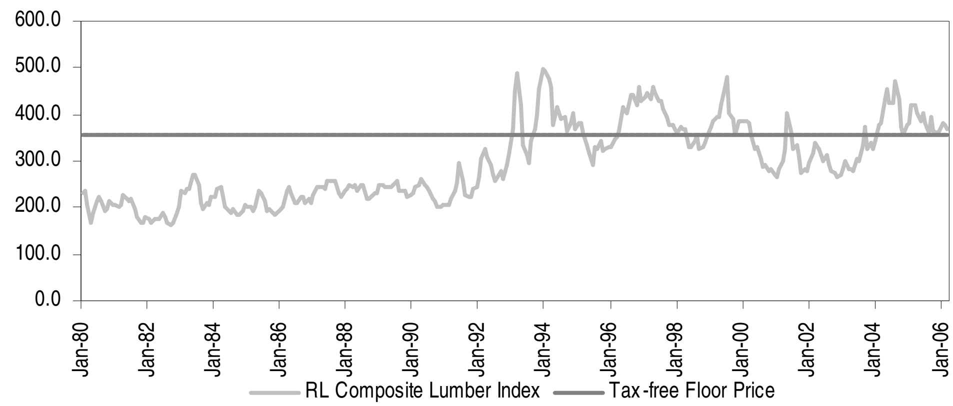
- **Export charge:** A region (B.C. Interior, B.C. Coast or other provinces) will choose between two options: Option A is an export, while Option B is a lower export charge combined with a volume restraint. In both cases, the charge will vary with lumber prices (see Exhibit 2). The reference lumber price is presently US$370/Mfbm. Exhibit 3 shows the evolution of that price over the past several years. Shipments above the quotas will be penalized. It is interesting to note that the quotas under Option B decline with the reference price so that U.S. producers are protected somewhat in the cases of a market downturn. The escalating charge is particularly punitive for Eastern Canadian producers, as some of them will not be able to stand low prices and high charges at the same time because of their high cost position. These producers might be limited to the Canadian market in a weak lumber environment. For modeling purposes, we expect B.C. will select Option A, while Ontario and Quebec will choose Option B.

Exhibit 2. Export Charge Mechanism

Lumber Prices Random Lengths Composite Price (US$)	Option A Charge Only	Option B Charge	Quotas
Over $355	0%	0%	No quota
$336-$355	5%	2.5%	Regional share of 34%
$316-$335	10%	3%	Regional share of 32%
Under $315	15%	5%	Regional share of 30%

Source: Company reports and CIBC World Markets Inc.

Exhibit 3. Random Lengths Composite Price Index (US$/Mfbm)



Source: Random Lengths and CIBC World Markets Inc.

- **Surge mechanism:** This mechanism is triggered if a region's exports exceed 110% of its allocated share in any one period. A region's market share will be based on the region's average share of Canadian exports to the U.S. during calendar years 2004 and 2005 applied to a 34% national Canadian market share of the U.S. market. If a region exports more than the trigger volume plus 1% in any one period, then the region will pay 150% of the normal export charge for that period.

- **Exceptions to the export charge:** The export charge on products valued at more than US$500/Mfbm (e.g., cedar lumber) will be charged as if their value was no more than US$500/Mfbm. Canada will limit the export charge on remanufactured lumber products from companies operating independently of tenure holders to the first mill price. This clause is particularly good for companies that produce a high proportion of high value lumber like Interfor.

Exhibit 4 shows the current duties paid to date by the lumber companies we cover and the expected return based on the settlement.

Exhibit 4. Accrued Countervailing And Anti-dumping Duties Since May 22, 2002 (C$ mlns., except where indicated)

Canadian Public Companies	Est. Anti-dumping Duties* (US$)	Est. Countervailing Duties* (US$)	Total Duties Paid (US$)	Estimated Interest Earned (US$)	Duty Refund (C$)	Est. Tax Rate	80% Duty Refund After Taxes	No. Of Shares	80% Refund Per Share After Taxes	80% Refund After Taxes	Stock Price	Leverage Per $1000 Invested
Western Based												
Canfor	$89	$643	$733	$102	$970	35%	$504	142.5	$3.54	$3.54	$14.55	$243
Interfor	$34	$63	$97	$13	$128	34%	$67	48.7	$1.38	$1.38	$7.75	$178
West Fraser	$58	$330	$387	$48	$506	35%	$263	42.7	$6.16	$6.16	$42.62	$145
Subtotal	$180	$1,036	$1,217	$163	$1,604		$835					
Eastern Based												
Abitibi-Consolidated	$96	$132	$228	$31	$301	0%	$241	440.0	$0.55	$0.55	$4.89	$112
Domtar	$51	$103	$154	$20	$202	0%	$162	229.8	$0.70	$0.70	$7.87	$90
Fraser	$4	$10	$14	$2	$19	0%	$15	29.5	$0.50	$0.50	$7.25	$81
Tembec	$52	$193	$246	$33	$324	0%	$259	85.6	$3.03	$3.03	$1.90	$1,594
Subtotal	$204	$438	$642	$86	$552		$677					
Total Canadian	$384	$1,474	$1,858	$249	$2,156		$1,512					
U.S. Companies												
Bowater	$35	$70	$105	$7	$130	0%	$104	57.4	$1.81	$1.81	$27.63	$76
IP	$0	$161	$161	$22	$213	35%	$111	485.9	$0.23	$0.23	$36.29	$7
Weyerhaeuser	$155	$219	$374	$33	$474	35%	$246	244.7	$1.01	$1.01	$72.26	$16
Total U.S.	$190	$449	$639	$63	$817		$461					
Other Affected Producers (Residual)	$1,012	$1,491	$2,502	($311)	$2,842	35%	$1,478					
Total Estimated Lumber Duties Paid	$1,586	$3,414	$5,000		$5,814							

Source: Company reports and CIBC World Markets Inc.

Louisiana-Pacific Corp.

Strong Q1 Earnings

(April 27, 2006)

All figures in U.S. dollars, unless otherwise stated.

On April 26, LP (LPX–SP) reported a strong Q1 profit, from continuing operations, of $0.80/share. This is better than the $0.54/share we had anticipated. The ramp-up of new capacity and improving prices in higher value non-commodity products generated the upside.

This result is lower than the profit of $0.87/share for the previous quarter and the $0.93/share earned in the year-ago period.

As a result of the stronger-than-expected Q1 earnings, we are increasing our 2006E EPS estimate from $1.99 to $2.35. We maintain our Sector Performer rating on LP.

The net after-tax effect of special items was a charge of $0.01/share. Including unusual items, LP recorded a Q1 profit, from continuing operations, of $84 million or $0.79/share.

Average market oriented strandboard (OSB) prices decreased 10% quarter over quarter, averaging $286/Msf in Q1. However because of a number of factors, including the fact that roughly half of LP's sales lag the market, an increasing mix of more stable higher value products and better prices in some regions of the U.S., LP's selling prices only fell 5% quarter over quarter. Combined with increased volumes, EBITDA for the OSB business remained roughly flat at $133 million in Q1 compared to $134 million in Q4. OSB costs were down approximately 6% quarter over quarter.

The company saw generally good demand for all of its OSB products in Q1 and benefited from an additional 80,000 Msf in OSB sales volumes from it new Peace Valley mill. On a year-over-year basis, demand for other products was mixed, with hardboard siding and I-joist demand down, while Smart Side Siding and laminated veneer lumber (LVL) products improved.

LP closed the quarter with a net cash position of $966 million, a similar level to last quarter, due to a build-up in working capital. As a result of its strong balance sheet, LP is continuing to implement capital investment plans to employ the latest technologies in its existing OSB mills. This in turn will further lower costs, improve efficiencies and increase capacity.

The company has targeted a capital spending program of $275 million during 2006, up slightly from the $258 million spent last year. Management is focusing on several major projects, which will consume the bulk of the investment, these include:

- Construction of a 700,000 Msf OSB mill in Clark County, Alabama. Start-up for this facility is scheduled for late 2007.

- Conversion of the Silsbee, Texas mill, which is currently producing Smart Side products, to commodity and specialty OSB production. The mill's capacity is currently rated 300,000 Msf per year.

- Conversion of the second line at Hayward, Wisconsin to Smart Side products instead of commodity OSB. Hayward's first line moved exclusively to Smart Side products in January 2006. In total, this mill was able to produce 550,000 Msf of OSB and could be converted by the end of Q4/06.

- The conversion of the Houlton, Maine OSB mill (280,000 Msf/year) to oriented strand lumber (OSL) production. This project was approved in recent weeks and is set to be completed by late 2007. It will also allow LP to provide its customers with a full line of engineered wood products including LVL, I-joists and OSL.

- The relocation of the company's idled 145,000 Msf/year Montrose, Colorado OSB mill to Chile.

LP completed construction of its joint venture OSB mill in B.C. with its partner Canfor in late 2005. The mill has an annual capacity of 820 million square feet (3/8" basis) and cost approximately $156 million (100% of the project). The mill is currently ramping up production and produced 88,000 Msf in Q1. However, start-up has been slower than expected with the mill currently at 50%–60% of target. During 2006, the company expects production from the mill to reach roughly 73% of capacity or 600,000 Msf of OSB.

Management has previously stated that its outstanding priority regarding uses of cash remains maintaining liquidity of $250–$300 million to buffer a market downturn.

We think the return of a large portion of the funds to shareholders in the immediate future (through a special dividend) will not occur. However, as part of its overall strategy, LP will continue to attempt to deploy its discretionary funds towards prudently returning cash to investors through its share repurchase program or other methods. In fact, last quarter the company increased its dividend, raising the annual payout to $0.60/share. The company has previously stated it would like to reach a maximum long-term payout ratio of 30%–35% of normalized EPS.

With respect to OSB acquisition opportunities, the company will wait for the right price and the right time. If we assume that the company wishes to increase its scale through acquisitions in order to grow with its customers, the question becomes which assets are available. The most logical choice is Norbord (NBD–SP). However, at a unit net asset value of $360/Msf, Norbord's OSB assets are relatively expensive. LP has previously stated that any acquisitions should be immediately accretive and that it would only consider buying if the price is compelling. LP considers the price paid for Potlatch's (PCH–NYSE) OSB operations and the Voyageur Panel mill to be relatively high (roughly $350/Msf), although it could be justified under certain assumptions. Opportunities in the engineered wood field would also be considered.

The average of precedent transactions is $254/Msf, which is similar to the implied value of LP's assets, based on its current stock price. Norbord is trading at $360/Msf; however, the spread is largely explained by Norbord's superior profitability. In 2005, Norbord's OSB generated an EBITDA of $128/Msf, while LP did only $102/Msf. We also think that Norbord has better operations than what Ainsworth (ANS–TSX) bought from Potlatch.

We think LP is trying to balance profitable growth with providing a sustainable return of value to shareholders. However, as the company continues to accumulate cash (currently $1.4 billion), it will be on the radar screen of financial and other strategic buyers (e.g., Weyerhaeuser (WY–SP)).

We have a Sector Performer rating on LP despite the downward trend we see in earnings over the next 12–18 months as OSB prices return to more normalized levels. The key reasons are the expected continued resilience of prices through the first half of 2006, and the company's overcapitalized balance sheet.

Price Target Calculation

Based on a multiple of 6.25x our 2007E EBITDA estimate of $350 million, we have a price target of $28.00 on LP. The company's lower target multiple reflects its lower capitalization and resulting loss of trading liquidity.

Key Risks To Price Target

Potential risks to our price target include a sharp increase in interest rates, which would reduce housing starts significantly.

Weyerhaeuser Co.

Q1 Earnings Lower Than Expected; Strategic Review Of UFS Paper Ops Under Way

(April 27, 2006)

All figures in U.S. dollars, unless otherwise stated.

On April 26, Weyco reported a profit, before unusual items, of $0.69/share for Q1. This was lower than the $0.93 we had expected mostly due to weaker-than-expected results in the real estate segment.

Management also publicly acknowledged that it is considering alternatives for the company's uncoated freesheet (UFS) paper operations. The company is currently in discussions with various parties, but little other information was disclosed. Given the lack of obvious buyers, we think it is most likely that Weyco will merge these UFS operations with either Domtar (DTC–SU) or Boise, and then dividend out shares in the resulting company. The logical fallback is that Weyco simply dividend out its paper operations to its shareholders on a stand-alone basis.

The UFS business represents just over 3 billion tons per year of capacity, and we think it could be worth $2.5–$3.3 billion.

Due to the weaker-than-expected Q1 results, we are lowering our 2006E EPS estimate from $4.35 to $4.06. We continue to have a Sector Performer rating on Weyco.

The net after-tax effect of special items was a charge of $3.05/share. Including unusual items, Weyco recorded a Q1 loss of $580 million or $2.36/share. The main charge was a $746 million ($3.03/share) write-down, representing the full amount of goodwill associated with the UFS paper business.

The Q1 result was weaker than the US$0.94/share profit posted in the previous quarter, and lower than the US$1.03 profit in the same quarter last year.

Results fell quarter over quarter despite the fact that generally lower paper and packaging volumes were more than offset by higher prices. Prices for UFS, pulp, and packaging all improved during the quarter. Building products prices were mixed, and results were generally flat quarter over quarter in this segment. The company also benefited from lower energy prices quarter over quarter. The company's real estate segment posted weaker results due to lower seasonal closings and lower prices.

In terms of EPS variance analysis, the difference between the profits of $0.94/share of Q4/05 and $0.69/share of Q1/06 reflects the following factors: higher prices (+$0.31/share); lower volume levels (–$0.07/share); lower manufacturing costs (+$0.05/share); lower real estate sales (–$0.34/share); and other (–$0.20/share).

The company's net debt-to-capital ratio increased from 44% in Q4 to 48% at the end of the quarter. The company is continuing to look at measures to return value to shareholders. Although the company has authorized the repurchase of up to 18 million shares of common stock, representing 7.3% of its market capitalization, it is unable to immediately proceed with the buyback. The delay is mainly due to legal constraints relating to the potential disposal of its fine paper business. However, we expect the company will complete the full program over the next two years.

The company recognizes that many of its businesses face long-term challenges. In particular, it is difficult for the paper and packaging businesses to earn their cost of capital. Weyco is continuing to take action on a strategic review of these assets, including possible divestitures, aimed at enhancing its value. We expect the company will continue targeting tough action on underperforming businesses and mills. Over the period 2005–06, we estimate Weyco will be reducing its pulp capacity by 9% or 270,000 tonnes, its containerboard capacity by over 5%, while its UFS capacity will be reduced by 436,000 tons or 12% of company-wide capacity.

Management will continue to develop its building products and packaging platforms and will continue to grow towards its real estate business. Ways to extract more value from its private timberlands are also being evaluated. For example, earnings from its timberland segment are presently fully taxable, while some timberland companies obtain a tax advantage under other structures (e.g., REIT). The company is looking at ways to reduce this tax disadvantage, but we are skeptical that Weyco will put its timberlands into a REIT (despite market speculation to the contrary).

Price Target Calculation

Based on a multiple of 7.25x our target EBITDA (25% of 2006E EBITDA and 75% of 2007E EBITDA), we have a price target of $70.00 on Weyerhaeuser. Our target multiple reflects a liquidity premium on average historical valuation in the sector.

Key Risks To Price Target

Potential risks to our price target include a weaker-than-expected economy, which would prevent pulp & paper prices from moving higher and a larger-than-expected correction in U.S. housing starts, which would result in low building materials prices.

Bowater Incorporated

Weaker-than-expected Q1

(April 28, 2006)

All figures in U.S. dollars, unless otherwise stated.

On April 27, Bowater (BOW–NYSE) reported a loss before unusual items of $0.33/share for Q1. This is well below our estimate for a loss of $0.06/share, mainly due to lower-than-anticipated earnings in the coated and newsprint paper businesses.

The result is worse than the loss of $0.25/share reported for the previous quarter and the loss of $0.22/share incurred in the same quarter a year ago.

Compared to the previous quarter, results weakened despite better newsprint and pulp prices, which were not enough to offset a stronger Canadian dollar and weaker coated paper prices.

We are lowering our 2006E EPS estimate from $0.58 to ($0.25) and our 2007E EPS estimate from $1.46 to $1.35 to reflect the weak results and higher-than-expected costs. We are also lowering our price target by $1.00 to $25.00. We maintain our Sector Performer rating.

In terms of newsprint pricing, the quoted benchmark price is currently around $670/tonne. Most major suppliers informed customers in January that they would raise the price of newsprint by $40/tonne effective February 1. This is the fourth newsprint price increase since the beginning of 2005. Roughly $25/tonne of the previous $35/tonne October increase was implemented on average. It is expected that a similar amount will be implemented in this round. So far, $20/tonne has been achieved.

We expect newsprint prices to average $670/tonne in 2006 and $690/tonne in 2007, from an average $610/tonne in 2005.

The high US$/C$ exchange continues to be the most important variable affecting Bowater's financial results — it averaged $0.87 in Q1, and is currently even stronger at $0.89. On a quarter-over-quarter basis, the stronger C$ caused the company's earnings to fall by $7 million. Other cost pressures included labour and pension expenses, each of which increased by $6 million over the same period.

The announced closure of the 210,000 tonne "A" kraft pulp mill in Thunder Bay is scheduled to take place in May 2006 (the mill will continue to run its "B" pulp line, which currently produces a 50/50 mix of softwood and hardwood pulp). The move is in response to high energy and wood costs in Ontario. Management estimates that the closure will save roughly $20 million/year in EBITDA and $4 million in depreciation, beginning in 2007.

In addition to the expected cost savings associated with the Thunder Bay announcement, management remains comfortable with the $80-million cost reduction program that was announced in October 2005. So far the company has achieved a savings run rate of $22 million, although the impact to date has been obscured by adverse currency movements. The $58 million in expected savings still outstanding are not yet reflected in our estimates.

Investors should note the Thunder Bay pulp line closure has no implications for the potential $200 million newsprint-to-LWC paper machine conversion project at the mill. However, management is not expected to proceed until there are significant improvements in the company's balance sheet and profitability. We think both the conversion project and the long-term viability of the mill remains in question, due to the high level of the US$/C$ exchange rate, currently at $0.89, and high provincial energy prices.

Due to the strong Canadian dollar, high energy prices and anemic demand, management is focusing on other Canadian paper mills that need restructuring. Over time, we expect the paper mills in New Brunswick and Nova Scotia will come under increasing scrutiny.

Capital expenditures totaled $38 million in Q1, and are expected to total $220 million in 2006. A significant amount of the 2006 amount is targeted at the conversion project at Calhoun. The total for 2006 is still only 68% of depreciation, and the "normalized" capex level is in the $130 million–$150 million range.

Bowater's leverage ratio remains one of the highest in our universe. Its net debt-to-capital ratio is currently 66%, a similar level to last quarter.

Management's top priority remains debt reduction. In Q1, the company continued its efforts to generate funds in order to pay down debt. A key initiative in meeting its target will be the completion of its $300-million timberland sale program. Note that the total area for sale corresponds to roughly 356,000 acres in the southeast U.S. The company is also selling some assets in Atlantic Canada. It owns 1 million+ acres in this region; however, these lands have a significantly lower value per acre compared to timberland in the U.S. south.

Roughly $37 million in asset sales were completed in Q1/06. So far, the company has achieved half its target. It expects an additional $80 million in proceeds by the end of Q2, bringing expected sale proceeds to $230 million by mid-year. At the end of 2007, Bowater anticipates it will exceed the $300-million mark. On top of this, the company will still have an additional 100,000 acres of southeast timberland available for sale.

We are making a slight downward revision to our price target on Bowater, from $26.00 to $25.00, in order to reflect the company's weaker earnings profile over the next 12 months.

Price Target Calculation

Based on a multiple of 6.00x our blended EBITDA estimate (25% of 2006E EBITDA and 75% of 2007E EBITDA), we have a price target of $25.00 on Bowater. Our target multiple reflects historical valuation.

Key Risks To Price Target

Potential risks to our price targets include a weaker-than-expected global economy, which would prevent commodity prices from recovering to their normalized levels.

West Fraser Timber Co. Ltd.

Mild Winter Causes Better-than-expected Results

(April 24, 2006)

Late on April 21, West Fraser reported a profit before unusual items of $0.76/share for Q1/06. This profit is better than our estimate of $0.52/share as the mild weather of the past winter resulted in stronger-than-expected lumber and panel shipments.

This profit is better than the profit of $0.11/share posted in Q4/05, but lower than the profit of $0.99/share recorded in Q1/05. West Fraser continues to be our top pick in the North American paper & forest products industry.

Earnings improved quarter over quarter because of higher lumber, pulp, containerboard and newsprint prices, a lower lumber duty rate and better building materials shipments. These positive factors were partially offset by the stronger Canadian dollar.

In light of these results, we are increasing our 2006E EPS estimate from $2.28 to $2.56. However, there is some uncertainty going forward related to the new stumpage system in B.C.

In addition, the following unusual items were recorded in the quarter:

- An expense of $25 million, or $0.58 per share, related to a restructuring charge resulting from the announced closure of the number one pulp machine and the wood room at the Hinton pulp mill in Hinton, Alberta.

- An expense of $2 million or $0.04 per share related to the translation of U.S. dollar denominated debt.

While lumber shipments increased by 9% over the previous quarter, rail car availability continued to be a significant issue. West Fraser is exploring alternate methods of transportation to partially offset the continued shortage of rail cars.

Despite higher lumber prices (+5%) and shipments, West Fraser expensed $22 million in lumber duty payments in the first quarter compared to $29 million in the fourth quarter of 2005. The reduction primarily reflects revised countervailing and anti-dumping duty rates, which became effective in December 2005. West Fraser's combined countervailing and anti-dumping rate went from 17.22% to 9.21%.

Stumpage fees on beetle-killed wood have increased in April 2006. At the same time, the provincial government has reduced stumpage fees on green wood so the net impact is revenue neutral to the government. It is too early for the company to provide an estimate on the impact, but it will be a negative for companies like West Fraser and Canfor that are harvesting significant volumes of beetle wood. For now, West Fraser estimates that the increase in stumpage fees on beetle-killed wood could increase costs by between $2/m3 and $3/m3 on B.C. crown lands under a worst-case scenario. That represents between $13 and $19 million before taxes (between $0.19/share and $0.28/share after taxes). We will wait for further clarification before incorporating that change into our forecasts.

The province of B.C. also announced on April 6, 2006, that it would introduce a new market-based timber pricing system for the B.C. Interior effective September 1, 2006. Under this new system, stumpage will be based on timber sales data derived from publicly auctioned timber rather than from the Statistics Canada lumber and chip price indices. West Fraser has not yet determined the financial impact of this stumpage change. However, based on simulations made by the provincial government, this change would not have impacted recent stumpage rate calculations. Having said this, the market-based system could affect stumpage rates in the future.

Price Target Calculation

Our price target of $50.00 on West Fraser is based on a 6.0x multiple on our target EBITDA estimate (25% of 2006 EBITDA and 75% of 2007 EBITDA). The Canadian paper & forest products stocks have traded at an average TEV to EBITDA multiple of 5.0x. However, we think this average multiple is too low as it reflects the depressed industry conditions of the last five years rather than a full cycle. Our calculation suggests that a multiple of 6.0x on West Fraser would provide investors with a reasonable return over a cycle.

Key Risks To Price Target

Potential risks to our price target include a weaker-than-expected U.S. economy, which would prevent pulp, paper from moving higher, a worse-than-expected correction in U.S. housing starts and the volatility in the Canadian/U.S. exchange rate.

Cascades Inc.

Small Investment In The Boxboard Segment

(April 24, 2006)

Late on April 21, Cascades (CAS–SO) announced that it has entered into an agreement with Caraustar Industries (CSAR–NASDAQ) to acquire a coated recycled board mill located in Sprague, Connecticut, for a total purchase price of US$14.5 million.

Caraustar had bought the mill in 1999 from International Paper (IP–SO) at a price of US$108 million. The mill is presently EBITDA negative, but Cascades expects to make it break-even within 12 months with small investments on the energy side and an optimization of the product and customer mix.

The Sprague mill has an annual production capacity of roughly 180,000 tons, which represents an estimated 7% of the North American coated recycled boxboard capacity. With this transaction, Cascades becomes the largest coated recycled boxboard producer in North American with a 22% market share.

Given the relatively small size of the transaction, we are not changing our estimates.

Closure of this transaction is subject to the approval of the environmental authorities of the state of Connecticut. The parties anticipate these formalities will be completed within a month. Concurrently, with the signature of the purchase agreement, the parties also signed a five-year board supply agreement pursuant to which Cascades will supply annually 30,000 short tons of coated recycled board to Caraustar's folding carton plants.

This acquisition will allow Cascades to increase productivity at all its boxboard mills while improving profitability through an improved product and customer mix. Moreover, this acquisition will enable the company to move manufacturing closer to the customer base while increasing its presence in the U.S. thereby reducing the exposure to fluctuations in the exchange rate.

We view boxboard as one of the worst segments of the pulp and paper industry. The North American boxboard market is generally characterized as over-supplied and relatively fragmented. Despite some consolidation over the past few years, the boxboard market remains more fragmented than most other pulp and paper markets. The top five boxboard producers represent only 52% of the North American capacity. On the other hand, buyers of recycled boxboard are mostly large consumer products companies with significant bargaining power. In addition, folding cartons made of boxboard face competition from alternatives such as flexible plastic packaging (e.g., plastic standup pouches).

Over the medium term, we are also concerned with the effects of a dramatic surge in Asian boxboard capacity. Within Asia, boxboard capacity expansions are expected to significantly outpace increases in demand in 2005/2006. After 1.2 million tonnes came on stream in 2004, 1.7 million tonnes more will start up by the end of 2005, followed by another 1.9 million tonnes in 2006/2007. Essentially all of the new capacity is recycled-based boxboard. We expect some of the new Chinese capacity to spill into Europe and North America.

Although we do not like the fundamentals of the boxboard segment, we acknowledge that this sector is in need of further consolidation and rationalization. Roughly 20% of the North American recycled boxboard capacity has been closed since 2000. Nevertheless, the operating rate stood at only 91% in 2005. As long as Cascades consolidates the industry in small steps, we are not overly concerned with the company's expansion in this difficult segment.

Price Target Calculation

Based on a multiple of 6.25x our blended EBITDA estimate (25% of 2006E EBITDA and 75% of 2007E EBITDA), we have a price target of $11.50 on Cascades. Our target multiple reflects a premium to average historical valuation in the sector due to the defensive nature of the company.

Key Risks To Price Target

Potential risks to our price target include a weaker-than-expected U.S. economy, which would prevent pulp and paper prices from moving higher, and the volatility in the Canadian/U.S. exchange rate.

Tembec Inc.

Shuts Down A Pulp Mill As Expected

(April 25, 2006)

Late on April 24, Tembec announced that its market pulp mill in Smooth Rock Falls, Ontario, will be idled indefinitely, effective July 31. The money-losing mill produces 200,000 tonnes of Northern Bleached Softwood Kraft (NBSK) pulp annually.

A number of factors have combined to make this decision necessary. Key among these were the high value of the Canadian dollar and the high manufacturing costs at this site relative to global competition.

This mill accounts for 0.4% of global market pulp capacity and 1% of global softwood market pulp capacity. This closure was expected, as the mill figures on our list of likely closures, which includes a total of 1.2 million tonnes of pulp capacity in North America.

We expect that closures of high-cost softwood pulp mills will lead to a healthy global operating rate in 2006/7, and an improving price spread between softwood and hardwood pulp prices.

Given that the mill was losing money, its closure should reduce Tembec's losses going forward. However, we can't quantify the impact at this time.

We estimate that the Smooth Rock Falls mill consumes roughly 420,000 tonnes of chips annually. Its closure should help to remove some of the heat on chip prices in Ontario and Quebec. Since we issued our report on the fiber supply reduction in Quebec on November 22, 2005, three pulp mills have been identified for indefinite closures (including Tembec's Smooth Rock Falls mill). In that report, we identified a chip deficit of one million tonnes in Quebec following the 20% reduction in the Quebec wood supply. We estimate that the three mills in question consume 1.7 million tonnes of chips. If these three mills stay down for good, as we expect, we forecast that chip prices in Eastern Canada will fall. With respect to the Quebec chip market in particular, the chip supply was increased by close to 600,000 tonnes with the indefinite closure of Domtar's pulp mill in Lebel-sur-Quevillon, and Tembec's Smooth Rock Falls mill, being in northeastern Ontario, is close enough to affect chip prices in Quebec. The third closure is Neenah's (NP–NYSE) pulp mill in northwestern Ontario.

We expect a series of as-yet-unannounced market pulp mill closures. This includes one million tonnes in North America. We expect the permanent closure of 1) Domtar's 350,000-Tpy softwood/hardwood mill in Espanola (Ontario); 2) Fraser Paper's (FPS–SU) 245,000-Tpy hardwood mill in Thurso (Quebec); and 3) Smurfit's (SSCC–NASDAQ,) 245,000-Tpy hardwood mill in Pontiac (Quebec). We also factor in the closing of the following pulp lines: 50,000 Tpy at Weyerhaeuser's Dryden (Ontario) mill; 40,000 Tpy at Potlatch's Lewston (Idaho) mill; and 100,000 Tpy at Pope & Talbot's (POP–NYSE) Halsey (Oregon) mill — all of which produce softwood pulp.

We predict that the global operating rate for market pulp in aggregate will remain healthy because of these expected closures. This is expected to drive a moderate increase in pulp prices over the next two years. Over the last seven months, pulp prices in Europe have improved by US$65/tonne to US$650/tonne. We expect the benchmark NBSK price to rise from an average of US$611/tonne in 2005 to US$650/tonne in 2006 and US$670/tonne in 2007. The companies we cover with the highest leverage to pulp prices are Tembec, Canfor, Bowater and SFK Pulp Fund (SFK.UN–SU).

Price Target Calculation

Based on a multiple of 5.0x our blended EBITDA estimate (25% of 2006E EBITDA and 75% of 2007E EBITDA), we have a price target of $0.25 on Tembec. Our target multiple reflects historical valuation.

Key Risks To Price Target

Potential risks to our price target include a weaker-than-expected global economy that would prevent pulp and paper prices from moving higher and continuing upward pressure on the Canadian dollar.

Tembec Inc.

Widening Losses In Q2 – Worse Than Expected

(April 26, 2006)

On April 25, Tembec reported loss before unusual items of $1.28/share for its fiscal Q2 (September 30 year-end). This is worse than the loss of $0.50/share we were looking for due to higher-than-expected costs and a lower tax rate on the losses.

This result is worse than the loss of $1.07/share reported in the previous quarter and the loss of $0.73/share posted in the same quarter a year ago. Operating earnings were up from the previous quarter and flat year over year. Nevertheless, the loss increased due to a lower tax recovery.

Operating results improved compared to the previous quarter, as the stronger Canadian dollar was more than offset by better pulp, newsprint and lumber prices, lower production curtailments in the pulp operations and lower energy costs.

Given the weaker-than-expected results and the lower expected tax recovery rate, we are adjusting our 2006E calendar EPS estimate from ($1.66) to ($3.16) and our 2007E calendar EPS estimate from ($1.64) to ($2.91).

The March 2006 quarterly financial results include the following unusual items (after taxes):

- A loss of $111.3 million or $1.30 per share relating to impairment of long-lived assets at the Smooth Rock Falls, Ontario, pulp mill. The mill will be shut indefinitely in July.

- A gain of $46.9 million or $0.55 per share related to the sale of the OSB mill located in Saint-Georges-de Champlain, Quebec, for total consideration of $98 million.

- Other non-recurring items totaling $10.2 million or $0.06/share.

During the March 2006 quarter, Tembec recorded an income tax recovery of $24.7 million on a pre-tax loss from continuing operations of $240.7 million. The income tax recovery was $55.4 million lower than the projected recovery of $80.1 million based on its effective rate of 33.3%. Based on past financial performance, future income tax assets have been limited to the amount that could likely to be used in the future. The effective tax rate was roughly 10%.

In addition to the Smooth Rock Falls mill, Tembec has four pulp and paper mills and one building materials operation under "intensive care". The company is confident that solutions could be found for most of these operations. If solutions cannot be found within the next several months, closures are possible. For example, roughly 1,000 employees at the Temiscaming complex have recently accepted an 11%–12% wage reduction.

In the current quarter, Tembec generated an EBITDA of $4.9 million, up significantly from the negative EBITDA of $33.0 million, in the previous quarter.

Going forward, Tembec does not anticipate any significant currency relief as the Canadian dollar continues to trade in the US$0.85–US$0.89 range. The pulp market continues to improve, with a price increase implemented in April. The primary challenges faced by the industry are the strength of the Canadian dollar and higher chemical, energy and wood costs, particularly in Eastern Canada. These issues are being addressed as part of the company's cost reduction program. The recent mill closures as well as the restructuring of the coated paper operations in St. Francisville, Louisiana, are expected to improve the company's future profitability. Tembec's anticipates a significant improvement in EBITDA in FQ3, assuming that the Canadian dollar stabilizes. The company continues to work for a timely resolution of the lumber dispute with the U.S. and a refund of monies deposited.

In terms of liquidity, the company no longer has the benefit of its profitable FX derivative program. As a result, at the end to the quarter the company's liquidity position was made up of $16.4 million in cash, temporary investments and other derivative instruments; and $42.8 million in credit availability. Total liquidity is down to $59.2 million from $131.2 million at the end of the previous quarter. However, some improvement in liquidity is expected to come from working capital over the next two quarters (about $50 million). These numbers do not reflect the $327 million of duty deposits. The company had previously set an objective of generating between $100 and $150 million of funds from non-operating initiatives in F2006. Following a further review of the ongoing initiatives, Tembec has increased the targeted range to $150–$200 million. These amounts include the sale of the OSB business that was completed in late February for $98 million.

With respect to asset sales, Tembec expects some developments within the next five months. Some assets have been identified for sale. For instance, the company owns 200,000 acres and 175,000 acres of private timberlands in Ontario and B.C., respectively. Roughly 10,000 acres of the B.C. land is in the higher-and-better-use category, although some of this is also in very rugged terrain, which has limited value. Based on a transaction made in 2005, we estimate the value of the Ontario land at roughly $20 million.

The EBITDA-to-interest coverage ratio improved quarter over quarter, from (0.8x) to 0.14x. The net debt-to-capital ratio deteriorated relative to the previous quarter from 62% to 73% as a result of the negative free cash flow and the losses.

We perform a "stress test", which calculates how long a company could go before it runs out of cash, cash equivalents, and lines of credit assuming that results remain at calendar FQ2/2006 levels. In the case of Tembec, we estimate that the company could go on for approximately one quarter, worse than the 3.2-quarter estimate of last quarter.

The company's bonds have rebounded somewhat from the low of 42.5% of par recorded at the beginning of the year. Tembec's 2012 7.75% bonds are currently trading at 53% of par as a result of improving pulp prices and expectations of a negotiated settlement on the lumber dispute. Tembec remains a high-risk investment, in our view, highly sensitive to pulp prices, the Canadian dollar, energy prices and the outcome of the lumber dispute.

Abitibi-Consolidated Inc.

Q1 Results Slightly Below Target

(April 26, 2006)

On April 26, Abitibi-Consolidated (A–SO) reported a Q1 loss before unusual items of $0.10/share. This loss is slightly higher than the loss of $0.08/share we were expecting due to higher-than-expected costs in the paper segments and lower commercial printing paper shipments.

The result is better than the loss of $0.12/share reported in the previous quarter and the loss of $0.13/share reported in the same period a year ago.

Results improved compared to the previous quarter, as the stronger Canadian dollar was more than offset by better paper prices, lower energy prices and a lower duty rate on lumber shipments to the U.S.

We are fine-tuning our 2006E EPS estimate from ($0.13) to ($0.16).

At the end of the quarter, Abitibi's debt/capital ratio stood at 0.61, up from 0.60 at the end of the previous quarter, reflecting the ongoing losses and the higher working capital requirements of the winter. We think that Abitibi's lenders are more focused on the company's interest coverage ratio than its debt/capital ratio. The former stood at 1.9x for the 12-month period ended March 31, 2006. This ratio is above the 1.5x threshold in the company's revolving credit facility. At the end of the quarter, the company had drawn $165 million on this $800-million facility.

Free cash flow before changes in working capital was at $7 million in the quarter. However, corrected for a normal capex level, the company would have broken even in the quarter on a free cash flow basis.

As a result of a review of its S,G&A costs, the company began to implement a plan to reduce these expenses at the head office as well as the general and administrative costs incurred at the mills. The objective is to remove $35 million of costs through process improvements, regionalization or centralization of certain functions, and a review of the necessity of some expenses. The plan is expected to eliminate more than 200 positions. This program is on top of the ongoing $175 million EBITDA improvement target, which is on track to be reached by the end of the year.

In terms of newsprint pricing, the quoted benchmark price is currently around US$670/tonne. Most major suppliers informed customers in January that they would raise the price of newsprint by US$40/tonne effective February 1. This is the fourth newsprint price increase since the beginning of 2005. Roughly US$25/tonne of the previous US$35/tonne October increase was implemented on average. It is expected that a similar amount will be implemented in this round. So far, US$20/tonne has been achieved. We expect newsprint prices to average US$670/tonne in 2006 and US$690/tonne in 2007, from an average US$610/tonne in 2005. Furthermore, in the first quarter of 2006, Abitibi announced price increases of US$40 per short ton effective March 1, 2006, for its ABIBRITE(R) and ABIBOOK(R) grades, US$40 per short ton effective April 1, 2006, for its ABICAL(R) grades and US$60 per short ton effective May 1, 2006, for its ABIOFFSET(TM) grades.

The company expects 2006 newsprint consumption in the U.S. to decline by approximately 4% on a tonnage basis, resulting mainly from a continued increase in the sales of lower basis weight paper, as well as reductions in circulation and continued conservation measures by daily newspaper publishers. However, the company believes announced capacity reductions and the impact of lower basis weights should result in continued high industry operating rates in North America. This view is consistent with our scenario, under which the North American operating rate will increase from roughly 95% in 2005 to almost 98% in 2006, then fall back to 96% in 2007. So far this year, total U.S. consumption is down 3.7% while the operating rate averaged 95%.

Abitibi expects global consumption growth to be slightly positive in 2006. Management expects demand in Europe to grow by approximately 2% in 2006, mainly due to better economic conditions, improving consumer confidence, positive advertising spending and the growth of free dailies. Latin American and Asian demand should record slightly positive growth in 2006.

Although the stock is presently above our price target, we are maintaining our Sector Outperformer rating on Abitibi, as its relative performance is still expected to be better than that of our coverage universe on average.

Price Target Calculation

Our price target of $4.50 on Abitibi is based on a multiple of 6.00x our target EBITDA estimate (25% of 2006E EBITDA and 75% of 2007E EBITDA). Our target multiple is at a premium to the average historical valuation in Canada due to the company's higher liquidity.

Key Risks To Price Target

Potential risks to our price target include a weaker-than-expected U.S. economy, which would prevent pulp and paper prices from moving higher, and a continuing increase in the Canadian dollar, which is putting pressure on the company's margins.

Domtar Inc.

Smaller-than-expected Loss In Q1

(April 28, 2006)

Domtar began to carry out the restructuring plan it announced at the end of last year. At that time, Domtar announced the closure of paper mills, two paper machines and two sawmills, as well as a general workforce reduction. This program is made up of the following elements:

- Reduce S,G&A expenses by eliminating approximately 100 additional corporate and divisional positions, as well as other SG&A expenses.
- Implement further cost reductions at the mill level by eliminating approximately 200 additional operational positions.
- Consolidate North American administrative offices in Montreal and Cincinnati.

EBITDA savings from these initiatives is expected to total $94 million and is broken down as follows:

- $28 million from the paper capacity rationalization.
- $11 million from the sawmills rationalization.
- $55 million from the other cost reduction initiatives.

The restructuring plan is progressing well. The permanent shutdown of the Cornwall pulp and paper mill as well as the Ottawa paper mill became effective at the end of the first quarter of 2006, and a series of measures aimed at improving cash flow are being implemented.

Free cash flow before working capital changes was $1 million in the quarter, up from –$22 million in the last quarter. However, using a normalized capex level, the free cash flow would have been –$30 million. Although we are somewhat concerned with the free cash flow deficit, Domtar's goal is to return the company to a positive free cash flow position as soon as possible. Pro forma to Domtar's restructuring and cost reduction program, normalized free cash flow would have been –$6 million.

In terms of liquidity, the company has a US$600-million unsecured revolving credit facility. This facility matures in March 2010 and has roughly US$395 million available this time. With respect to the company's debt repayment schedule, no substantial amounts are due before 2010.

If a liquidity crisis appears, Domtar has some private timberlands in Canada and the U.S., which we value at roughly $150 million, and a 50% interest in the Norampac joint venture (here we value the equity at roughly $300 million, which we consider conservative). While the company continues to view Norampac as a good investment, the company confirmed that it is a non-core asset and that it is looking at its options.

Domtar's net debt-to-total capitalization ratio as at March 31, 2006, stood at 58.6% compared to 57.7% as at December 31, 2005. Domtar's total long-term debt increased by $48 million, largely due to additional net borrowings of $45 million resulting from the seasonal increase in working capital.

Domtar expects challenging market conditions to continue in 2006; however, price increases have been recently announced for most of the company's key products and we expect results to improve.

The industry UFS operating rate (shipments-to-capacity) remained high in March at 98%, compared to a similar level a year ago. This is due in large part to companies including IP, Weyerhaeuser, and Domtar, which have announced plans to close up to 10% of North American UFS capacity between the beginning of 2005 and early 2007. Listed prices for UFS are currently around US$830/ton. This reflects a US$50/ton–US$60/ton increase that producers put through in early January and the full amount of a second increase of US$60/ton on offset and converting grades, which became effective at the end of March. UFS prices are increasing more rapidly than anticipated, with speculation of an additional US$40/ton increase announcement to be effective at the beginning of June.

Price Target Calculation

Based on a multiple of 6.00x our blended EBITDA estimate (25% of 2006E EBITDA and 75% of 2007E EBITDA), we have a price target of $6.50 on Domtar. Our target multiple is at a premium to the average historical valuation in Canada due to the company's higher liquidity.

Key Risks To Price Target

Potential risks to our price target include a weaker-than-expected U.S. economy, which would prevent pulp and paper prices from moving higher, and the volatility in the Canadian/U.S. exchange rate.

Catalyst Paper Corporation

Q1 Loss In Line With Expectations

(April 28, 2006)

On April 27, Catalyst Paper (CTL–SU) reported a loss of $0.05/share for Q1. This loss is in line with our estimate of a loss of $0.04/share.

This result is worse than the loss of $0.03/share reported in the previous quarter, but better than the loss of $0.09/share posted in the year-ago quarter.

Despite better pulp and paper prices, results deteriorated slightly in Q1 as a result of the stronger Canadian dollar and weaker coated paper prices. Efficiency gains captured through the company's annual performance improvement program mitigated the decline.

Given the cost reductions achieved, we are fine-tuning our 2006E EPS estimate from ($0.07) to ($0.06) and our 2007E EPS estimate from $0.17 to $0.20.

In March 2006, Catalyst Paper undertook an operational review of its indefinitely idled Port Alberni No. 3 paper machine. The machine was indefinitely idled in February 2005 and based on the review the company has decided to permanently close the machine. The closure, impacting 140,000 tonnes of previously idled newsprint capacity, resulted in a $17.6 million impairment loss.

During the quarter, the company introduced a new performance improvement initiative aimed at delivering EBITDA improvements of $70 million year over year. Approximately $13 million in EBITDA improvements were realized in the current quarter, resulting primarily from product optimization and productivity improvements.

EBITDA for the current quarter of $47.3 million was down $1.0 million from $48.3 million in the previous quarter. The various elements responsible for the quarter-over quarter change in EBITDA are as follows:

- Stronger Canadian dollar (–$10.7 million).
- Higher transaction prices for several paper grades (+$5.0 million) combined with better pulp realizations ($4.2 million).
- Other net (+$0.5 million).

The quoted benchmark price for newsprint is currently around US$670/tonne. Most major suppliers informed customers in January that they would raise the price of newsprint by US$40/tonne effective February 1. This is the fourth newsprint price increase since the beginning of 2005. Roughly US$25/tonne of the previous US$35/tonne October increase was implemented on average. It is expected that a similar amount will be implemented in this round. So far, US$20/tonne has been achieved. We expect newsprint prices to average US$670/tonne in 2006 and US$690/tonne in 2007, from an average US$610/tonne in 2005. Furthermore, a US$40/ton price increase was announced for all SC grades, effective April 1, 2006.

Free cash flow before working capital changes was $31.5 million in the quarter. However, using a normalized capex level, the free cash flow would have been $18.5 million. As of March 31, 2006, the company had an undrawn available balance of $345.5 million under its revolving loan of $350 million. Its net debt to net capitalization ratio was 46%, a similar level to the previous quarter.

Price Target Calculation

Based on a multiple of 5.25x our blended EBITDA estimate (25% of 2006E EBITDA and 75% of 2007E EBITDA), we have a price target of $3.00 on Catalyst Paper. Our target multiple reflects historical valuation.

Key Risks To Price Target

Potential risks to our price target include a weaker-than-expected U.S. economy, which would prevent pulp and paper prices from moving higher, and a rising Canadian dollar.

International Forest Products Limited

Q1 Earnings In Line

(April 28, 2006)

Late on April 27, Interfor reported a profit of $0.11/share for Q1/06. This is in line with our estimate for a profit of $0.11/share.

This result is better than the profit of $0.01/share reported in Q4/05, but lower than the $0.13/share profit reported in Q1/05.

Earnings improved quarter over quarter as a result of higher hemlock lumber prices, partially offset by the stronger Canadian dollar. Generally weak wood product prices in Japan, which have negatively affected Interfor’s profitability, continue to improve.

Interfor continues to make good progress on its asset sales and operational realignment. Also, the new softwood lumber deal should provide a meaningful boost to margins and offers liquidity for future growth. We maintain our Sector Performer rating.

Improving wood product prices in Japan continue to lift Interfor's profitability. The economic recovery along with improving housing demand in this market has allowed prices to increase 5% year over year.

First-quarter results benefited from good performance at the company's troubled Queensboro sawmill, which restarted in mid-January after being curtailed in late November. The company also benefited from reduced duty charges and a reduction in losses from non-core operations.

Lumber shipments totaled 328 million board feet in the first quarter compared to 333 million board feet in the preceding three months.

From an operating perspective, Interfor expects all its sawmills to operate on a normal schedule in the second quarter.

During the first quarter, Interfor paid $5.2 million ($3.4 million after tax or $0.07 per share) in countervailing and anti-dumping duties on shipments of 107 million board feet to the U.S. So far, Interfor has paid total deposits of $113 million since May 2002.

The deal announced on April 27 to end the softwood lumber trade dispute stands to significantly benefit Interfor relative to the current duties' environment. As shown in Exhibit 4, we estimate the company will receive roughly $67 million ($1.38/share), after interest income and taxes.

Other than the cash, another material benefit for Interfor are the terms of the new agreement, which lower the penalties for exporting higher value products, like cedar, to the U.S. market. Specifically, the export tax charged on higher value wood products would be based on an effective ceiling price of C$500/Mbfm (US$440/Mbfm at current exchange rates). Under existing duty measures, the value of cedar products (which sell for over US$2,000/Mbfm) is not capped and the full vale is subject to duty.

Depending on the exercise tax option selected, savings could range between US$100–US$200 per thousand board feet of production. The company has the capacity to produce 180,000 Mbfm of cedar at its Hammond mill and also produces higher value products at other mills including Queensboro and MacKenzie. However, we will not incorporate this benefit into our forecast until more details are quantified in terms of earnings impact.

Interfor is continuing to address the future of a number of assets, which do not fit its long-term business strategy, and pursue the sale of additional surplus property and equipment. Specifically, during Q1, Interfor permanently closed its Field sawmill, sold additional property/equipment for $5 million, and transferred its conventional logging to contractors. During Q2, Interfor will continue its efforts to streamline its Coastal Group with the sale of its helicopter-logging subsidiary for roughly $4 million.

Interfor's net debt decreased in the first quarter by $16 million to stand at $23.3 million, or the equivalent of 5.6% of invested capital. This compares to a ratio of net debt to invested capital of 7.1% at the end of the fourth quarter. Including our estimate for the expected duty refund, Interfor would shift to a $43 million net cash position, if the duties were refunded immediately.

As part of its 2006 capital plan, Interfor is undertaking a $31.5 million capital investment at its Adams Lake B.C. Interior operation, to upgrade the mill site and to install a wood waste energy system. These projects will reduce the mill's dependence on natural gas, which is currently trucked to the site, and position the operation for future expansion.

In total, the company expects to spend $100 million in capital programs during 2006. Most of the projects, other than Adams Lake, will be focused on improving operations in the U.S. Pacific Northwest. Management estimates Interfor's normalized capex spending program should average close to $40 million annually (excluding discretionary projects).

The company intends to continue its initiative to identify complementary opportunities in the B.C. Interior, U.S. Pacific Northwest and southern Pine regions of the U.S. and has the balance sheet flexibility to do so.

Price Target Calculation

Based on a multiple of 4.50x our blended EBITDA estimate (25% of 2006E EBITDA and 75% of 2007E EBITDA), we have a price target of $7.50 on Interfor. Our target multiple reflects historical valuation.

Key Risks To Price Target

Potential risks to our price target include a weaker-than-expected global economy, which would prevent commodity prices from recovering to their normalized levels.

SFK Pulp Fund

Reports Weaker-than-expected Results – Chip Prices Now Expected To Stay Flat

(April 27, 2006)

On April 27, SFK reported distributable cash of $0.07/unit for its Q1. This is lower than our estimate of $0.10/unit because of some production problems in the quarter. The fund suspended its distribution on November 16.

The Q1 distributable cash level is better than the –$0.03/unit posted in the previous quarter. In the same quarter a year ago, distributable cash amounted to $0.18/unit.

Although the Canadian dollar was stronger, results were up quarter over quarter due to higher pulp prices and the fact that the semi-annual maintenance shutdown was taken in the fourth quarter.

Despite the weaker-than-expected results, we are increasing our 2006E DCFPU estimate from $0.36 to $0.37 and our 2007E DCFPU estimate from $0.46 to $0.50 to reflect our lower chip price assumption.

Problems with the recovery boiler early in the quarter (which curtailed production by approximately four days) and the failure of a component on the main turbo generator resulted in additional costs approximately $1.5 million ($0.03/unit).

During the first quarter of 2006, 46% of sales were realized in Canada, 36% in the U.S. and 18% in Europe. Over the same period last year, these percentages were 47%, 30% and 23%, respectively. SFK continues to optimize its sales mix towards North American sales where net realized prices are better. This strategy is helped by the closure of high cost pulp mills in Eastern Canada, which creates new selling opportunities for SFK.

During the quarter, market pulp prices increased from an average of US$598/tonne to an average of US$622/tonne. Over the last seven months, pulp prices in Europe have improved by US$65/tonne. NBSK contract prices in Europe currently stand at US$650/tonne. Weyerhaeuser, a price leader, just proposed a new price of US$690/tonne for NBSK in Europe, effective May 1. We expect the benchmark NBSK price to rise from an average of US$611/tonne in 2005, to US$650/tonne in 2006 and US$670/tonne in 2007.

The company's cash reserve increased from $6.5 million to $11.8 million in the quarter. Of that $11.8 million, $3.1 million was subsequently used in the semi-annual outage in mid-April 2006 and the remaining $8.7 million will be used to support the investment strategy.

With a distributable cash reserve of $8.7 million, SFK decided, last March, to maintain the suspension of its cash distributions with the objective of restoring a reserve of approximately $10.0 million (of which $8.0 million is reserved to support our investment strategy and $2.0 million to reduce the impact of any negative fluctuations in future cash flows). The board will reassess in May 2006 whether monthly distributions should be resumed. We estimate that the reserve will be full by the end of April and distributions could potentially resume in May. Based on the current exchange rate of US$0.88 and pulp prices of US$650/tonne, we estimate that SFK presently generates $0.03/unit per month, while the reserve deficit was $0.02/unit at the end of March.

SFK has not established its 2006 chip prices yet, but our understanding is that some chip contracts that have been negotiated by other players incorporate a $5/tonne increase to $145/tonne. However, at the same time there are reportedly sufficient chips on the market as sawmillers are still processing salvage timber from last year's severe forest fire season. In addition, Cascades has threatened chip suppliers to shut its pulp mill in Quebec if chip prices are not reduced to $125/tonne. If Cascades is successful in obtaining a price concession, it could cause a precedent for the rest of the industry. If Cascades is not successful, its mill might close and the demand on chips will be reduced. A $20/tonne reduction in chip prices would improve SFK's results by $0.25/unit on an annual basis.

Because of another pulp mill closure, we are now assuming that chip prices will stay flat in 2006. We were previously assuming that chip prices would increase by $5/tonne in 2006. On April 24, Tembec announced that its market pulp mill in Smooth Rock Falls, Ontario, will be idled indefinitely, effective July 31. The money-losing mill produces 200,000 tonnes of NBSK pulp annually. We estimate that the Smooth Rock Falls mill consumes roughly 425,000 tonnes of chips annually. Its closure should help to remove some of the heat on chip prices in Ontario and Quebec. Since we issued our report on the fiber supply reduction in Quebec on November 22, 2005, three pulp mills have been identified for indefinite closures (including Tembec's Smooth Rock Falls mill). In that report, we identified a chip deficit of one million tonnes in Quebec following the 20% reduction in the Quebec wood supply. We estimate that the three mills in question consume 1.6 million tonnes of chips. If these three mills stay down for good, as we expect, we forecast that chip prices in Eastern Canada will fall. With respect to the Quebec chip market in particular, the chip supply was increased by close to 600,000 tonnes with the indefinite closure of Domtar's pulp mill in Lebel-sur-Quevillon, and Tembec's Smooth Rock Falls mill, being in northeastern Ontario, is close enough to affect chip prices in Quebec. The third closure is Neenah's pulp mill in northwestern Ontario.

Price Target Calculation

Our price target of $4.00 reflects a target yield of 9% based on our 2006 distributable cash forecasts.

Key Risks To Price Target

Potential risks to our price target include a slower-than-expected global economy that would prevent pulp paper prices from moving higher, higher chip prices, continuing upward pressure on the Canadian dollar and higher interest rate which would make yield products less attractive.

TimberWest Forest Corp.

Reports Good Q1 Results; Unveils Real Estate Upside

(April 28, 2006)

Late on April 27, TimberWest (TWF.UN–SU) reported distributable cash of $0.41/unit for its Q1. This is higher than our estimate of $0.28/unit due to better-than-expected prices and product mix.

This result is better than the $0.38/unit reported in the previous quarter and the $0.21/unit generated a year ago.

The increase from the prior year is primarily attributable to higher average prices for logs (+6%) and lumber (+11%) and an increase in log (+12%) and lumber (+36%) sales volumes. In addition, revenues from real estate activity of $6.6 million were higher.

In light of the new guidance for the real estate sales, we are increasing both our 2006E and 2007E DCFPU estimates from $1.08 to $1.20. As a result, our price target is increased from $13.00 to $14.00.

Pricing levels in the first quarter were supported by a lower supply of logs in all of TimberWest's market segments due to reduced harvests as a result of adverse winter weather conditions. Many competitors harvested lower volumes due to snow; however, TimberWest's timberlands include a number of lower elevation areas that can be logged during the winter months. TimberWest took advantage of this situation and the flexibility provided by its private timberland asset base by increasing harvesting at lower elevations, including a greater-than-typical proportion of second-growth Douglas fir. As a result, average log sales realizations for the quarter were boosted by a sales mix more heavily weighted in higher-value Douglas fir.

Real estate sales continue to act as a buffer for weakness in export log and lumber markets and may augment the company's ability to fund distributions in the longer term. In the near term, with the stronger Canadian dollar and with the coastal forest industry continuing to struggle, this may add to the security of distributions.

Real estate prices have improved over 70% on Vancouver Island in the past five years. Given this increase, TimberWest retained the consulting arm of Colliers International (Colliers International Realty Advisors Inc.) to undertake an independent evaluation of its entire real estate portfolio and update the size and other attributes of its higher and better use (HBU) properties. The results of this study indicate that the portfolio of HBU lands over a five-year planning horizon has increased significantly. TimberWest has now identified in excess of

10,000 hectares of HBU lands (up from 6,200 hectares) worth between $150 million and $200 million that would be available to sell in the next five years, meaning that there is a potential to sell an average of $30 million of HBU lands per annum. However, this annual cash flow is expected to be somewhat volatile, as development processes and markets can be unpredictable. Preliminary results on the five- to 15-year time horizon indicate that the portfolio of HBU lands is considerably larger than the amount available in the first five years.

The company expects to ship increased log volume to Japan in 2006, but it expects pricing to remain stable. In the U.S., housing starts are expected to drop modestly during the latter half of the year. In addition, log supply is expected to increase in the U.S. during the second quarter as the weather improves. This, coupled with a modest decline in demand later in the year, suggests that U.S. log prices will soften in the latter half of the year. In the company's domestic markets, reasonable demand and pricing is expected in the near term due to limited log supply. However, as log production increases towards the end of the second quarter, it is expected that log prices will decrease to some extent. For the second quarter, the company's harvest mix will again be predominantly fir from low-elevation stands but, as the weather improves later in the quarter, harvesting will shift to higher elevations where the mix becomes heavier to hemlock — a lower-value species. The company anticipates net sales realizations will trend lower for the balance of the year as hemlock becomes a larger component of the sales mix and as the supply of logs increases in certain markets.

TimberWest expects the second quarter to be good and is maintaining its guidance that it will generate sufficient distributable cash from its timberland, sawmill and real estate operations to cover its distribution requirements for 2006 ($1.08/unit).

As of the end of March 2006, TimberWest has paid US$3.2 million in combined countervailing and anti-dumping duties on lumber products sold into the U.S. market since the dispute began in 2002. Based on the new lumber deal, US$2.6 million, or 80%, will be returned to the company.

Although we appreciate the value of the company's real estate portfolio, we are concerned about the unpredictable nature of that business for the longer term.

Price Target Calculation

Our price target of $14.00 reflects a target yield of 8.5% based on our 2006 forecast.

Key Risks To Price Target

Potential risks to our price target include a slower-than-expected U.S. and Japanese economy that would prevent log and lumber prices from moving higher, continuing upward pressure on the Canadian dollar and higher interest rate, which would make yield products less attractive.

Newsprint

March Statistics – Lower Inventory Level Only Bright Spot

(April 24, 2006)

Newsprint statistics released by the Pulp and Paper Products Council (PPPC) on April 24 indicate that consumption by all U.S. users fell 1.9% in March. Overall consumption concealed the weak results of U.S. dailies, which fell by 5.0%. This represents the 33rd month of straight declines.

So far in 2006, total consumption is down 3.7%. We estimate roughly 25% is due to declines in grammage, 45% to reductions in circulation, 20% to lower advertising lineage and 10% to other factors such as conservation measures.

This month's data is consistent with the weakening newspaper figures reported by major publishers. During March, daily newspaper circulation at Knight-Ridder (KRI–NYSE) and McClatchy (MNI–NYSE) was down 5.5% and 1.7%, respectively.

The three companies we cover with the greatest leverage to changes in newsprint prices are Catalyst Paper and Abitibi-Consolidated in Canada and Bowater in the U.S.

It is worth noting that 1.5 percentage points of the year-over-year decline in newsprint consumption registered this month is due to declines in the weight of newsprint. Average grammage has dropped from 47.7 g/m^2 in March 2005 to 47.0 g/m^2 currently.

Observers should note that the weight of newsprint has little impact on the supply/demand balance since it results in an equal reduction in both consumption and capacity.

During March, North American mill stocks decreased by 55,000 tonnes to 313,000 tonnes, which is roughly 15% below the historical five-year average. On the consumer side, inventories held by all U.S. users decreased to 37 days of supply, down two days, month over month. This level of supply is three days below the four-year average.

The North American operating rate was a disappointing 94% in March, down from 97% at this time last year, reflecting a 9.1% year-over-year decline in production. Despite all the newsprint capacity reductions over the past year, falling demand is continuing to put pressure on operating rates.

In terms of newsprint pricing, the quoted benchmark price is currently around US$670/tonne. Most major suppliers informed customers in January that they would raise the price of newsprint by US$40/tonne effective February 1. This represents the fourth newsprint price increase since the beginning of 2005. Roughly US$25/tonne of the previous US$35/tonne October increase was implemented on average. It is expected that a similar amount will be implemented in this round. So far, US$20/tonne has been achieved.

We expect newsprint prices to average US$670/tonne in 2006 and US$690/tonne in 2007, from an average US$610/tonne in 2005.

Although newsprint companies are still losing money, newsprint prices are becoming expensive in U.S. dollar terms, as we have exceeded what we think is a normalized level in the U.S. dollar. Given the price elasticity of demand and rising prices, as evidenced this month, we think that newspaper publishers will continue to reduce newsprint consumption. A good example of this was the recent announcement by the *New York Times*, identifying plans to replace is regular six-pages of stock tables with two pages of financial summary information.

The key question in the North American newsprint market is whether capacity reductions can keep pace with falling demand. Although Abitibi has taken the lead in closing capacity over the past several years, we think other companies will bear the burden of the next round of closures/conversions if consumption continues to contract.

From 2005 to 2006, the PPPC estimates that North America's average annual newsprint capacity has fallen by roughly 5%. This corresponds to a 650,000 tonne reduction in newsprint capacity and results from lower basis weight newsprint, conversion away from newsprint production and previously announced capacity closures, including the following:

- The permanent closure of Abitibi's 240,000-Tpy Kenora, Ontario mill, shut in October 2005.
- Abitibi's permanent shutdown of its 60,000-Tpy paper machine in Grand Falls and the permanent closure of its 194,000-Tpy mill in Stephenville, both located in the province of Newfoundland and Labrador and closed in late 2005.

Although these closures were announced in 2005, the full effect will not be felt until this year. However, it's important to note that these previously announced closures are reflected in the current North American operating rate of 94%.

On top of this, we estimate an additional 8% of North American capacity will be removed by early 2007. Due to a combination of negative factors including the strong Canadian dollar, high fiber costs and rising electricity rates, we think the following PMs/mills are in jeopardy:

- Stora Enso's (SEO–NYSE) 180,000-Tpy machine at Port Hawkesbury, Nova Scotia. This machine, which accounts for 1.4% of North American capacity, has been idled since December 2005 due to a labor dispute — we do not think it will ever re-start.
- Bowater's 245,000-Tpy mill in Liverpool, Nova Scotia, and its 230,000-Tpy mill in Dalhousie, New Brunswick. Before actually closing these mills, we think Bowater will first try to sell them at a discounted price — to us, logical buyers include Kruger and maybe Irving.
- Tembec's 317,000-Tpy mill in Kapuskasing (Ontario).

Market Pulp

March Statistics – Improving Demand Supporting Better Prices

(April 24, 2006)

Data released by the PPPC on April 24 show that global inventories of chemical paper-grade market pulp fell by one day, to 31 days of supply, in March. Although tightening, we tend to associate this level with a balanced market.

Global shipments in March were 3.6% higher than year-ago levels, and the global operating rate improved from 95% to 96% during the same period. Most regions showed increased demand during the month, with Western Europe and China improving the most. North America was down 4%.

NBSK contract prices in Europe currently stand at US$650/tonne, following the partial implementation of the latest (April 1) increase, which would lift prices to US$660/tonne, if fully accepted. Producers are also continuing successful efforts to lift prices in China, which are set to rise again in May.

The companies we cover with the highest leverage to pulp prices are Tembec, Canfor, and Bowater.

Over the last seven months, pulp prices in Europe have improved by US$65/tonne. Another US$10/tonne of price improvements have been announced but not yet implemented. The driving force behind this effort is a series of permanent and indefinite pulp closures in North America, improved shipments and lower inventories.

The brunt of capacity closures announced early 2006 have yet to be fully reflected in the monthly statistics, as mills work down inventories. The most recent mills to be closed include:

- Western Forest Products' (WEF–TSX) 265,000-Tpy softwood mill in Squamish, B.C., which was permanently shuttered at the end of January.
- Neenah Paper's 325,000-Tpy softwood mill in Terrace Bay, Ontario, that closed indefinitely in February.
- Georgia-Pacific's permanent closure of its Old Town, Maine, 188,000-Tpy NBHK mill, scheduled to be shut in early April.

West Fraser announced the permanent closure of a 70,000-Tpy NBSK pulp line in Hinton, Alberta, by year-end.

Of the closures already announced, we think 1.3 million tonnes are permanent (i.e., 2.5% of global capacity).

Recently, softwood pulp producers have been keen to narrow the price spread between foreign markets (especially Europe and China) and the U.S. in order to position the U.S. market for further increases. So far they have been most successful in China, as a result of aggressive price increases and improving demand. However, in Europe the spread widened to US$40/tonne this month. This compares to China, which has narrowed from US$145/tonne to US$120/tonne during the same period. Note that this has occurred in an environment of rising prices within the U.S. domestic market.

Producers exporting to the critical Chinese market have successfully increased their prices four times this year. Producers implemented a US$20/tonne increase in January, US$30/tonne in February, US$30/tonne in March and US$10/tonne in April. Producers have also announced a new US$30/tonne increase for May.

Taking into account this fifth increase, prices in China could average US$600/tonne next month. With prices for both hardwood and softwood moving up and generally tight supply, we think the latest increase will be implemented successfully. Higher NBSK prices in China are most positive for B.C. pulp producers. Also, investors should note that strength in China is normally a good indicator that prices in other regions will improve.

Data from Europe remains positive, reflecting lower-than-normal inventories. While European consumer pulp inventories were up 5% sequentially in March, they are 8% below 2005 levels. Inventories, expressed in days of supply, increased by two days compared to the previous month, but still stand at a low 28 days. Pulp consumption improved for the first time in several months, rising 3% relative to a year ago. Europe is a key consumer and the most important destination for market pulp, representing 41% of total worldwide shipments in 2005.

We expect the benchmark NBSK price to rise from an average of US$611/tonne in 2005, to average US$650/tonne in 2006 and US$670/tonne in 2007.

Printing & Writing Paper

March Statistics – Demand Continues To Trend Down

(April 26, 2006)

On April 25, the PPPC released its North American printing and writing (P&W) paper statistics for March. Overall demand declined this month; UFS was down the most, while coated freesheet (CFS) was the only grade in positive territory.

Total P&W paper demand decreased 2.7%, led by a 3.9% decline in UFS, the most important grade. UFS inventories, which fell 42,000 tons to 1.160 million tons remain at or very close to historical lows.

Demand for coated groundwood (CGW) and uncoated groundwood (UGW) fell by 3.2% and 2.3%, respectively, while demand for CFS was up a modest 0.4%. Companies we follow have little exposure to CFS.

In our universe, focusing on those companies highly leveraged to P&W papers, the changes in paper inventory and demand during March are most negative for Bowater, Domtar and IP.

Total P&W producer inventories fell this month, decreasing by 67,000 tonnes or 2.9% during March, and are 9.8% lower than last year at this time. Lower UFS and CFS inventories were responsible for the decrease this month.

The UFS operating rate (shipments-to-capacity) remained high in March at 98%, compared to a similar level a year ago. This is due in large part to companies including IP, Weyerhaeuser and Domtar who have announced plans to close up to 10% of North American UFS capacity between the beginning of 2005 and early 2007.

Listed prices for UFS are currently around US$840/ton. This reflects a US$50/ton–US$60/ton increase that producers put through in early January and the full amount of a second increase of US$60/ton on offset and converting grades, which became effective at the end of March. UFS prices are increasing more rapidly than anticipated, with market participants speculating about a further US$40/ton price increase for the beginning of June.

The companies with the greatest leverage to UFS prices are Domtar, Fraser Papers and IP.

In the longer term, we think some UFS markets will be permanently lost as a result of the conversion of newsprint capacity to super-high-brite UGW papers (e.g., Abitibi's EO/AO grades), which compete with the UFS offset rolls. Given the poor outlook for newsprint in North America, we expect continued conversions and that these high-brite groundwood papers will be extremely price competitive. We expect a negative ripple effect throughout most of the UFS paper grades as UFS prices improve and as the incentive to substitute to cheaper alternatives increases.

UFS producers have also struggled in recent years from substitution to coated grades due to the high price of UFS relative to CFS paper. After peaking at 93% in July 2002, and then falling as low as 73% in late 2003, the relative price (UFS/CFS) is up to 92%. Given the current ratio, we think substitution away from UFS is taking place at this time.

Despite cost pressures and supply disruptions in the CGW market, producers have not increased prices since last summer. In fact, since mid-2005 prices for CGW have slipped by US$40/ton, and are currently standing at US$995/ton. We expect prices for CGW will improve going forward as producers of most other coated grades and other substitute grades are achieving higher prices.

Prices for super calendared-A grade paper are currently US$800/ton, but could improve as supply remains constrained due to the labour lockout at Stora-Enso's Port Hawkesbury mill. The mill produces roughly 375,000 Tpy of super calendared papers (SC) and 195,000 Tpy of newsprint has been down since December 24, 2005. Since shutting down the mill has lost over 132,000 tons of SC paper and 60,000 tonnes of newsprint. Catalyst Paper, Abitibi and Bowater have the greatest exposure to UGW paper.

Exhibit 5. North American P&W Paper Demand Data

Grade	Mar-06	Mar-05	% Change
CFS	498,000	497,000	0.4%
CGW	496,000	512,000	(3.2%)
UFS	1,112,000	1,157,000	(3.9%)
UGW	537,000	549,000	(2.3%)
Total	2,643,000	2,715,000	(2.7%)
Grade	**January-March 2006**	**January-March 2005**	**% Change**
CFS	1,412,000	1,407,000	0.3%
CGW	1,423,000	1,462,000	(2.7%)
UFS	3,238,000	3,225,000	0.4%
UGW	1,450,000	1,519,000	(4.6%)
Total	7,523,000	7,613,000	(1.2%)

Source: Pulp And Paper Products Council and CIBC World Markets Inc.

North American Valuations

(April 28, 2006)

Exhibit 6. North American Companies' P/E And TEV/EBITDA Valuation

	Mkt. Cap. ($ mlns.)	Float ($ mlns.)	Price	P/E			TEV/EBITDA				EBITDA				Price/ Tangible BV
				2005	2006E	2007E	2005	2006E	2007E	Normalized	2005	2006E	2007E	Normalized	
U.S. (US$)															
Bowater	1,547	1,482	26.95	NM	NM	20.0	8.8	7.7	6.5	7.7	458	523	625	526	3.93
International Paper	17,593	17,527	36.20	33.5	23.8	20.7	9.0	7.2	8.0	7.9	2,571	3,207	2,895	2,922	5.41
Louisiana-Pacific	2,986	2,963	28.22	8.3	12.0	22.2	3.2	4.1	6.3	6.0	641	492	325	338	1.62
Weyerhaeuser	17,139	16,544	69.73	16.4	17.2	16.7	10.7	10.6	8.3	9.8	2,388	2,413	3,091	2,618	2.45
Average	9,816	9,629		19.4	17.7	19.9	7.9	7.4	7.3	7.9					3.35
Canada (C$)															
Abitibi-Consolidated	2,103	1,889	4.78	NM	NM	34.1	9.3	8.6	6.8	10.6	649	708	890	572	1.90
Canfor	2,044	1,248	14.34	22.8	21.4	23.5	9.3	7.0	8.5	8.7	297	396	327	317	1.03
Cascades	940	592	11.63	NM	32.3	17.9	8.8	7.6	7.1	6.9	256	295	315	325	1.22
Domtar	1,866	1,574	8.07	NM	NM	NM	11.6	10.3	7.8	9.4	358	403	533	441	1.26
Fraser Papers* (US$)	209	114	7.08	NM	NM	NM	25.0	5.1	4.2	6.7	7	34	42	26	0.42
Interfor	371	354	7.62	NM	15.6	23.8	5.5	4.3	5.0	4.8	72	93	79	83	0.98
Norbord* (US$)	1,764	982	12.25	6.2	7.2	11.3	3.6	4.4	6.5	6.5	497	413	280	280	3.04
Catalyst Paper	685	483	3.19	NM	NM	16.0	9.5	6.4	5.1	8.4	161	239	301	182	0.67
Tembec	149	120	1.74	NM	NM	NM	223.0	(57.8)	23.9	45.6	9	(35)	84	44	0.18
West Fraser	1,810	1,393	42.36	22.3	16.5	21.9	5.5	6.2	6.2	7.1	480	427	427	372	1.14
Average	1,194	875		17.1	18.6	21.2	31.1	0.2	8.1	11.5					1.18
Income Trusts (C$)															
PRT Regeneration Fund	102	100	10.59								10	12	12	12	
SFK Pulp Fund	277	276	4.67								31	36	44	38	
TimberWest	1,091	1,091	14.10								78	80	80	80	
Average	460	455													

* Fraser Papers and Norbord report in US$ and trade on the TSX. Data including price, dividend, market cap and float are in C$, all other figures are in US$.

Source: CIBC World Markets Equity Research.

Exhibit 7. Summary Spreadsheet

Stock Rec.	Symbol	Company	Fiscal Year	Price	52-week High	52-week Low	Ind. Div.	Yield	Shares O/S (mlns.)	Mkt. Cap. ($ mlns.)	Float ($ mlns.)	Net Debt/ Capital	Fiscal Yr. EPS 2005	Fiscal Yr. EPS 2006E	Fiscal Yr. EPS 2007E	P/E Multiples 2005	P/E Multiples 2006E	P/E Multiples 2007E	BVPS	P/B	ROE 2005	ROE 2006E	ROE 2007E	Total Implied Return[1]	12-mo. Price Target
U.S. (US$)																									
SP	BOW	Bowater	Dec.31	$26.95	$36.38	$24.73	$0.80	3.0%	57.4	$1,547	$1,482	66%	($0.69)	($0.25)	$1.35	NM	NM	20.0	$20.47	1.3	(3%)	(2%)	(4%)	(4.3%)	$25.00
SO	IP	International Paper	Dec.31	36.20	37.76	26.97	1.00	2.8%	486.0	17,593	17,527	39%	1.08	1.52	1.75	33.5	23.8	20.7	17.07	2.1	5%	14%	(1%)	(0.6%)	35.00
SP	LPX	Louisiana-Pacific	Dec.31	28.22	29.75	23.00	0.40	1.4%	105.8	2,986	2,963	(81%)	3.42	2.35	1.27	8.3	12.0	22.2	20.00	1.4	20%	26%	1%	0.6%	28.00
SP	WY	Weyerhaeuser	Dec.31	69.73	75.48	60.62	2.00	2.9%	245.8	17,139	16,544	48%	4.24	4.06	4.17	16.4	17.2	16.7	37.55	1.9	13%	23%	3%	3.3%	70.00
		Group Average						2.5%				25%				19.4	17.7	19.9		1.7	8.8%	15.3%	(0%)	(0.2%)	
Canada (C$)																									
SO	A	Abitibi	Dec.31	4.78	6.33	3.46	0.10	2.1%	440.0	2,103	1,889	61%	(0.40)	(0.16)	0.14	NM	NM	34.1	5.46	0.9	(7%)	(6%)	(4%)	(3.8%)	4.50
SP	CFP	Canfor	Dec.31	14.34	16.12	11.26	0.00	0.0%	142.5	2,044	1,248	26%	0.63	0.71	0.61	22.8	20.2	23.5	14.52	1.0	5%	10%	(2%)	(2.4%)	14.00
SO	CAS	Cascades	Dec.31	11.63	12.77	7.35	0.16	1.4%	80.8	940	592	59%	0.07	0.36	0.65	NM	32.3	17.9	11.10	1.0	1%	6%	0%	0.3%	11.50
SU	DTC	Domtar	Dec.31	8.07	10.58	4.70	0.00	0.0%	231.2	1,866	1,574	58%	(0.37)	(0.17)	0.15	NM	NM	NM	6.81	1.2	(3%)	(3%)	(19%)	(19.5%)	6.50
SU	FPS	Fraser Papers[2]	Dec.31	7.08	13.00	6.82	0.00	0.0%	29.5	209	114	4%	(0.80)	(0.37)	(0.02)	NM	NM	NM	15.11	0.5	(5%)	(5%)	(1%)	(1.1%)	7.00
SP	IFP.A	Int'l Forest Prod.	Dec.31	7.62	8.11	6.12	0.00	0.0%	48.7	371	354	6%	0.19	0.49	0.32	NM	15.6	23.8	8.13	0.9	2%	12%	(2%)	(1.6%)	7.50
SP	NBD	Norbord[3]	Dec.31	12.25	12.89	9.82	0.40	3.3%	144.0	1,764	982	37%	1.67	1.44	0.92	6.2	7.2	11.3	3.63	3.0	32%	49%	5%	5.3%	12.50
SU	CTL	Catalyst Paper	Dec.31	3.19	3.63	2.40	0.00	0.0%	214.6	685	483	45%	(0.22)	(0.06)	0.20	NM	NM	16.0	4.75	0.7	(5%)	(3%)	(6%)	(6.0%)	3.00
SU	TBC	Tembec[3]	Sep.30	1.74	4.00	0.79	0.00	0.0%	85.6	149	120	68%	(3.87)	(3.16)	(2.91)	NM	NM	NM	9.53	0.2	(45%)	(93%)	(86%)	(85.6%)	0.25
SO	WFT	West Fraser	Dec.31	42.36	51.50	37.31	0.56	1.3%	42.7	1,810	1,393	31%	1.90	2.56	1.93	22.3	16.5	21.9	43.59	1.0	4%	11%	19%	19.4%	50.00
		Group Average						0.8%				40%				17.1	18.6	21.2		1.0	(2%)	(2%)	(9%)	(9.5%)	
Income Trusts (C$)													Distributable Cash			Yield									
SP	PRT.UN	PRT Regeneration Fund	Dec.31	10.59	11.57	9.49			9.6	102		18%	0.97	0.99	1.00	9.2%	9.3%	9.4%						8.7%	10.50
SU	SFK.UN	SFK Pulp Fund	Dec.31	4.67	5.98	2.85			59.3	277		18%	0.25	0.37	0.50	5.4%	7.9%	10.7%						(3.6%)	4.00
SU	TWF.UN	TimberWest	Dec.31	14.10	16.25	12.10			77.4	1,091		20%	0.96	1.20	1.20	6.8%	8.5%	8.5%						8.8%	14.00
		Group Average										18.7%				7.1%	8.6%	9.6%						4.6%	

[1] Return calculations exclude applicable costs, including interest and commissions.

[2] Reports in US$ and trades on the TSX. Data including price, dividend, market cap., float and target are in C$, all other figures are in US$.

[3] EPS estimates are on a calendar year basis.

Source: Company reports and CIBC World Markets Inc.

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Stock Prices as of 05/02/2006:
Abitibi-Consolidated Inc. (2a, 2d, 2e, 2f, 2g, 6a) (A-TSX, C$4.49, Sector Outperformer)
Bowater Inc. (9) (BOW-NYSE, US$26.38, Sector Performer)
Canfor Corporation (CFP-TSX, C$14.21, Sector Performer)
Cascades Inc. (2a, 2e, 2g, 4a, 4b, 7) (CAS-TSX, C$11.55, Sector Outperformer)
Catalyst Paper Corporation (2a, 2e) (CTL-TSX, C$3.06, Sector Underperformer)
Domtar Inc. (2a, 2c, 2d, 7) (DTC-TSX, C$8.12, Sector Underperformer)
Fraser Papers (2g) (FPS-TSX, C$7.34, Sector Underperformer)
International Forest Products Limited (2g, 12) (IFP.SV.A-TSX, C$7.43, Sector Performer)
International Paper Co. (IP-NYSE, US$36.47, Sector Outperformer)
Louisiana-Pacific Corp. (LPX-NYSE, US$28.07, Sector Performer)
Norbord Inc (2g) (NBD-TSX, C$12.20, Sector Performer)
PRT Forest Regeneration Income Fund (2g, 7) (PRT.UN-TSX, C$10.59, Sector Performer)
SFK Pulp Fund (2g) (SFK.UN-TSX, C$4.63, Sector Underperformer)
Tembec Inc. (2g) (TBC-TSX, C$1.65, Sector Underperformer)
TimberWest Forest Corp. (2g, 6a, 7) (TWF.UN-TSX, C$14.10, Sector Underperformer)
West Fraser Timber Co. Ltd. (2g) (WFT-TSX, C$42.64, Sector Outperformer)
Weyerhaeuser Co. (2a, 2e) (WY-NYSE, US$69.70, Sector Performer)

Companies Mentioned in this Report that Are Not Covered by CIBC World Markets:

Stock Prices as of 05/02/2006:
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Caraustar Industries (CSAR-NASDAQ, US$9.75, Not Rated)
Knight-Ridder Inc. (KRI-NYSE, US$62.00, Not Rated)
McClatchy Co. (MNI-NYSE, US$45.20, Not Rated)
Neenah Paper (NP-NYSE, US$31.84, Not Rated)
Pope & Talbot Inc. (POP-NYSE, US$7.40, Not Rated)
Potlatch Corp. (PCH-NYSE, US$39.00, Not Rated)
Smurfit Stone Container Corp. (SSCC-NASDAQ, US$12.90, Not Rated)
Stora Enso Oyj (SEO-NYSE, US$15.89, Not Rated)
The New York Times Corp (NYT-NYSE, US$24.34, Not Rated)
Western Forest Products Inc. (WEF-TSX, C$2.35, Not Rated)

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CIBC World Markets Price Chart

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CIBC World Markets' Stock Rating System

Abbreviation	Rating	Description
Stock Ratings		
SO	Sector Outperformer	Stock is expected to outperform the sector during the next 12-18 months.
SP	Sector Performer	Stock is expected to perform in line with the sector during the next 12-18 months.
SU	Sector Underperformer	Stock is expected to underperform the sector during the next 12-18 months.
NR	Not Rated	CIBC World Markets does not maintain an investment recommendation on the stock.
R	Restricted	CIBC World Markets is restricted*** from rating the stock.
Sector Weightings**		
O	Overweight	Sector is expected to outperform the broader market averages.
M	Market Weight	Sector is expected to equal the performance of the broader market averages.
U	Underweight	Sector is expected to underperform the broader market averages.
NA	None	Sector rating is not applicable.

**Broader market averages refer to the S&P 500 in the U.S. and the S&P/TSX Composite in Canada.
"Speculative" indicates that an investment in this security involves a high amount of risk due to volatility and/or liquidity issues.
***Restricted due to a potential conflict of interest.

Ratings Distribution*: CIBC World Markets' Coverage Universe

(as of 02 May 2006)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	313	38.7%	Sector Outperformer (Buy)	166	53.0%
Sector Performer (Hold/Neutral)	377	46.6%	Sector Performer (Hold/Neutral)	173	45.9%
Sector Underperformer (Sell)	90	11.1%	Sector Underperformer (Sell)	47	52.2%
Restricted	17	2.1%	Restricted	17	100.0%

Ratings Distribution: Paper & Forest Products Coverage Universe

(as of 02 May 2006)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	4	28.6%	Sector Outperformer (Buy)	3	75.0%
Sector Performer (Hold/Neutral)	6	42.9%	Sector Performer (Hold/Neutral)	3	50.0%
Sector Underperformer (Sell)	4	28.6%	Sector Underperformer (Sell)	4	100.0%
Restricted	0	0.0%	Restricted	0	0.0%

Paper & Forest Products Sector includes the following tickers: A, BOW, CAS, CFP, CTL, DTC, FPS, IFP.SV.A, IP, LPX, NBD, TBC, WFT, WY.

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