



September 1, 2006

Paper & Forest Products

Stock Rating:  
**Sector Underperformer**

Sector Weighting:  
**Underweight**

12-18 mo. Price Target \$6.50  
DTC-TSX (9/1/06) \$7.02

Key Indices: Toronto

3-5-Yr. EPS Gr. Rate (E) NM  
52-week Range \$4.70-\$8.76  
Shares Outstanding 231.3M  
Float 230.5M Shrs  
Avg. Daily Trading Vol. 1,217,000  
Market Capitalization \$1,623.9M  
Dividend/Div Yield Nil / Nil  
Fiscal Year Ends December  
Book Value \$6.73 per Shr  
2006 ROE (E) NM  
LT Debt \$2,176.0M  
Preferred \$34.00M  
Common Equity \$1,556.0M  
Convertible Available No

Earnings Per Share	Prev	Current
2005		(\$0.37A)
2006		(\$0.09E)
2007		\$0.14E

P/E	
2005	NM
2006	NM
2007	50.1x

**Company Description**

Domtar Inc. is an integrated manufacturer of fine papers, packaging, pulp and forest products.

[www.domtar.com](http://www.domtar.com)

**Don Roberts**  
1 (613) 564-0827  
Don.Roberts@cibc.ca

**Herve Carreau, CFA**  
1 (514) 847-6420  
Herve.Carreau@cibc.ca

**Jonathan Lethbridge, CFA**  
1 (514) 847-6423  
Jonathan.Lethbridge@cibc.ca

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**Domtar Inc.**

**The New Domtar: An Initial Look**

- Weyerhaeuser's fine paper business is being merged with all of Domtar to create a new Domtar, with the deal closing expected in Q1/07. Domtar is effectively being sold without a premium, but this is likely the best that can be expected.
- We believe that this deal creates shareholder value due to: 1) US\$200 million in synergies; and 2) a liquidity premium due to increased market capitalization to roughly US\$3.4 billion. It also creates a stronger balance sheet and decreases leverage to a strong Canadian dollar.
- Since the new Domtar will be incorporated in the U.S., the stock will be removed from Canadian stock indices. Therefore, we expect some index selling by Canadian institutions. However, Domtar will be distinguished by the fact it offers almost 5x the leverage to changes in UFS prices as does IP.
- Based on the limited financial information available on the Weyerhaeuser assets being merged, it seems that the split of new Domtar ownership between Domtar and Weyerhaeuser shareholders is fair.

**Stock Price Performance**



Source: Reuters

All figures in Canadian dollars, unless otherwise stated.

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**See "Price Target Calculation" and "Key Risks to Price Target" sections at the end of this report, where applicable.**

# The Deal Structure

Weyerhaeuser's (WY-SP) fine paper business is being merged with all of Domtar (DTC-SU) to create a new Domtar, with the deal closing expected in Q1/07. Domtar is effectively being sold without a premium, but this is likely the best that can be expected.

The combination is subject to approvals by Domtar shareholders by a special resolution, the Superior Court of Quebec, and appropriate regulatory and other authorities, as well as to customary closing conditions. Importantly, the Caisse de dépôt, which owns roughly 15% of Domtar, has already expressed its tentative support for the transaction.

Under the terms of the agreement, Weyerhaeuser will distribute ownership of the fine paper business to its shareholders in either a spin-off or split-off transaction. Weyerhaeuser will determine which approach it will take prior to closing the transaction. A spin-off would involve a pro-rata distribution of shares to Weyerhaeuser shareholders. In a spin-off, Weyerhaeuser shareholders would receive a pro-rata distribution of approximately 1.14 shares of the new company for each share of Weyerhaeuser that they own. A split-off would provide Weyerhaeuser shareholders the option to elect to exchange Weyerhaeuser shares for stock in the new Domtar.

Since the new Domtar will be incorporated in the U.S., we expect the stock to be removed from Canadian stock indices (but eventually added to the U.S. indices). As a result, we estimate that Canadian index-related selling should be around 15-18 million shares (or 21x-26x average recent daily volume). While this will likely only occur when the deal is closed in Q1/07, hedge funds will be shorting the stock in the interim in anticipation of this occurring. Once the deal closes, we also expect some natural selling of the new Domtar as investors in a US\$14 billion cap "solid wood" company may not be interested in owning a US\$3 billion cap "paper" company. The overhang on Weyerhaeuser's side will be more limited if the split-off option is chosen.

## The Valuation

Using Domtar's closing share price of \$7.65 prior to the announcement, the stock is valued at:

- 14.0x latest-12-month EBITDA
- 8.1x Q2/2006 EBITDA
- 11.1x 2005 EBITDA
- 9.2x 2006E EBITDA
- 7.0x 2007E EBITDA
- 8.3x normalized EBITDA

Based on the limited financial information available on the Weyerhaeuser assets being merged, it seems that the split of new Domtar ownership between Domtar and Weyerhaeuser shareholders is fair. In Q2/2006, the only EBITDA available for Weyerhaeuser assets, Domtar would have represented 53% of the combined EBITDA, whereas it will represent 52% of the new total enterprise value (TEV) (see Exhibit 1). Because it is being merged with a higher debt level, Domtar shareholders will own only 45% of the new Domtar. Leveraging the Weyerhaeuser

assets further prior to the merger could have increased the representation of Domtar shareholders, but one of the goals of the transaction is to have a resulting company with a stronger balance sheet than that of the old Domtar.

In addition, given the Reverse Morris Trust structure used in the deal, our understanding is that it was necessary for Weyerhaeuser shareholders to have a majority of the new entity in order for this to be a tax-free transaction.

**Exhibit 1. Pro Forma Financial Highlights (Q2/2006 Annualized In US\$)**

	Domtar Including Norampac	Weyerhaeuser Paper Assets	New Domtar
Sales	\$4,126	\$3,000	\$7,126
EBITDA	\$434	\$380	\$814
EBITDA Margin	10.5%	12.7%	11.4%
Debt	\$1,935	\$1,350	\$3,285
Market Cap	\$1,574	\$1,913	\$3,487
TEV	\$3,509	\$3,263	\$6,772
% Of TEV	52%	48%	100%
% Of EBITDA	53%	47%	100%
Debt To Capital Ratio At Market	55%	41%	49%
TEV To EBITDA	8.1	8.6	8.3

Source: Company reports and CIBC World Markets Inc.

## The Financial Impact

Based on annualized Q2/06 results, the new entity would have generated US\$7.1 billion in sales and US\$814 million in EBITDA and carried US\$3.3 billion in debt. While the Weyerhaeuser assets would have contributed US\$380 million in EBITDA, this reflects US\$334 million in depreciation and amortization. As a result, on an EBIT basis, the Weyerhaeuser assets would have contributed only US\$46 million. However, note that there was significant downtime at some of these assets over this period, which reduced the EBIT.

We think this deal creates shareholder value due: to 1) US\$200 million in synergies; and 2) a liquidity premium due to increased market capitalization to roughly US\$3.5 billion. It also creates a stronger balance sheet and decreases leverage to a strong Canadian dollar. We estimate that the debt/capital ratio will improve from 55% to 49% based on the market value of the equity, and that the EPS sensitivity to changes in the C\$/US\$ exchange rate will fall by more than half.

Appendix 1 provides our initial estimate of the 2007 pro forma income statement for the new Domtar in Canadian dollars assuming that the transaction occurs on December 31, 2006. We emphasize that only a limited amount of financial information is available at this time, and expect to refine our estimates once the circular is distributed in November. In terms of hard numbers, we only have one quarter of annualized data (Q2/06) for both businesses (and even that quarter was not very representative due to unusual operating conditions). We are hampered by the fact that the bundle of assets coming over from Weyerhaeuser is not the same as what was historically represented in that company's segmented results.

Based on our conservative forecasts, we estimate that the transaction will be slightly dilutive to 2007E EPS with the limited amount of financial information available at this time. Our forecasts assume an uncoated freesheet (UFS) price of US\$800/tonne in 2007 compared to the current price of US\$850/ton. Our forecasts also assume that one-third of the synergies will be realized in 2007. As a result, we reduced our 2007E EPS estimate from \$0.16 to \$0.14 on August 23.

Largely because of the expected synergies, our price target for the new Domtar is \$6.50, compared to our price target of \$6.00 for the old Domtar. Despite the improved liquidity, our target multiple stays at 6.0x. We maintain our Sector Underperformer rating.

## A New Leader

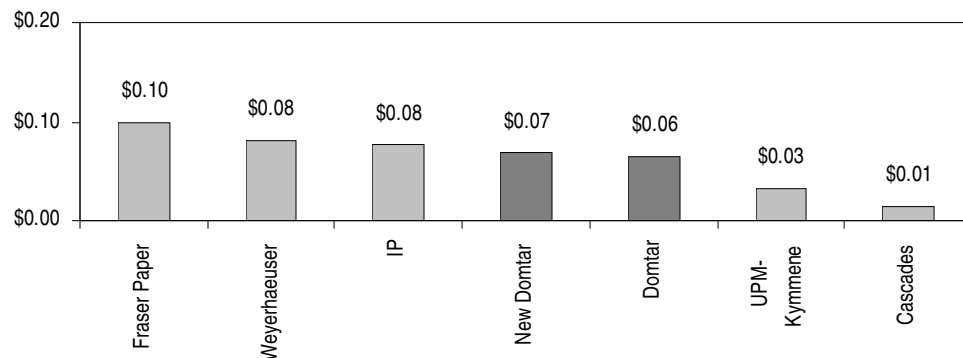
There is no question that the announced merger will create one of the largest UFS paper producers in the world. It will have:

- More than 5.2 million tons of fine paper capacity at 16 paper mills.
- 240,000 tons of coated groundwood (CGW) capacity at one mill.
- Approximately 1.6 million tonnes of pulp capacity (plus 330,000 tpy that is indefinitely idled), including two market pulp mills.
- Relationships with more than 100 independent merchants at some 350 locations.
- Domtar’s paper merchants, with 27 locations.
- 1.3 Bfbm of lumber capacity at 10 sawmills.
- 50% ownership of Norampac, the largest paperboard company in Canada.

With 5.2 million tons of fine paper capacity, the company will have a 33% share of the North American market. While imports of fine paper into North America have historically been low, increasing offshore capacity and the threat of imports will be a discipline on any exercise of pricing power.

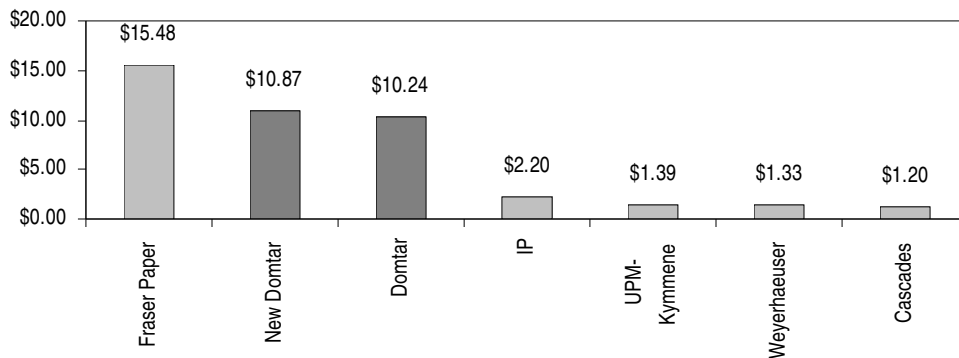
Although Domtar will be roughly doubling its paper capacity, the EPS sensitivity and leverage to changes in UFS prices will remain basically unchanged given the new shares that will be issued (see Exhibits 2 and 3). When the amount of capital invested in all the stocks is held constant, the leverage metric indicates that Domtar offers almost 5x the leverage to UFS prices as International Paper. Only the much smaller Fraser Paper offers greater leverage to changes in this commodity price.

**Exhibit 2. EPS Sensitivity To A US\$10/ton Change In UFS Prices**



Source: Company reports and CIBC World Markets Inc.

**Exhibit 3. Leverage Per US\$1,000 Invested To The Price Of UFS**

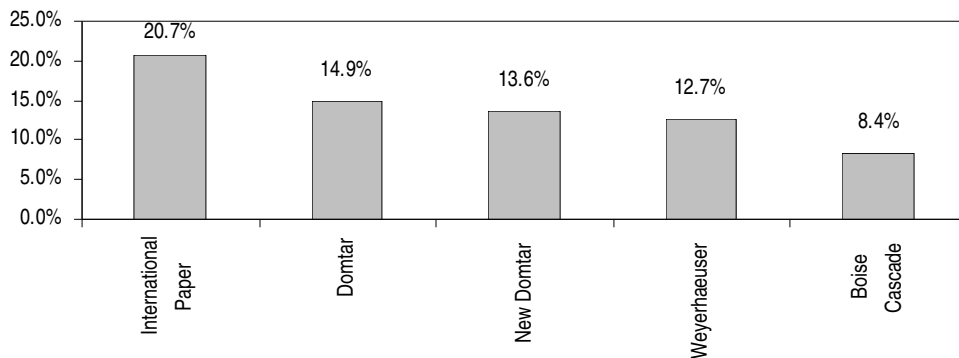


Source: Company reports and CIBC World Markets Inc.

Domtar President and CEO Raymond Royer will lead an organization of 14,000 employees with a management team consisting of executives from Weyerhaeuser paper operations and Domtar. This team includes Marvin Cooper, Weyerhaeuser senior vice president, Cellulose Fiber & White Paper, Containerboard Manufacturing and Engineering, who will become chief operating officer (COO) of the new company. The new Domtar will have its head office in Montreal, Quebec, while the headquarters of operations will be in Fort Mill, SC. The new Domtar will be incorporated in the U.S.

Focusing on the pulp and paper segments of the large fine paper franchises, it appears that International Paper (IP-SP) has the low-cost franchise based on Q2 earnings (see Exhibit 4). However, it should be noted that the mix between pulp, UFS and coated paper is different from one company to another.

**Exhibit 4. Q2 EBITDA Margins Of Fine Paper Segments**



Source: Company reports and CIBC World Markets Inc.

Exhibit 5 summarizes all of the production facilities of the new company, and capacity at each mill. Note that we have also provided an estimate of where each mill sits on the industry cost curve. Management asserts that six of the company's UFS mills (e.g., Ashdown, Hawesville, Kingsport, Bennettsville, Johnsonburg, Windsor) are world-class facilities, and we agree that the first three are in the lowest quartile of the North American cost curve.

**Exhibit 5. The New Domtar**

	Estimated Position On Cost Curves (Quartile) North America Cash Costs	Number Of Machines	Avg. Size Of Machines	Capacity			Capacity		
				Canada	U.S.	Total	Domtar	Weyco Assets	Total
<b>Uncoated Freesheet (thousand short tons)</b>									
Ashdown, AR	1st	4	225		900	900	900		900
Bennetsville, SC	2nd	1	370		370	370		370	370
Dryden, ON (one machine down, not shown in capacity)	2nd	1	330	330		330		330	330
Espanola, ON	Specialties, 2nd	2	50	100		100	100		100
Hawesville, KY	1st	2	300		600	600		600	600
Johnsonburg, PA	2nd	2	180		360	360		360	360
Kingsport, TN	1st	1	410		410	410		410	410
Nekoosa, WI	2nd	3	67		200	200	200		200
Plymouth, NC	1st	2	235		470	470		470	470
Port Edwards, WI	3rd	4	50		200	200	200		200
Port Huron, MI	Specialties, 4th	4	25		100	100	100		100
Rothschild, WI	3rd	1	140		140	140		140	140
Prince Albert, SK (shut down indefinitely)	4th	1	290	290		290		290	290
Windsor, QC	2nd	2	300	600		600	600		600
Woodland, ME	2nd	1	100		100	100	100		100
Total				1,320	3,850	5,170	2,200	2,970	5,170
<b>Coated Freesheet (thousand short tons)</b>									
Hull, QC	NA	1	100	100		100	100		100
<b>Coated Groundwood (thousand short tons)</b>									
	Global Cost Curve Del. Chicago								
Columbus, MS	1st				240	240		240	240
<b>Pulp Mills (thousand metric tonnes)</b>									
	Global Softwood Curve Del. Rotterdam								
Ashdown, AR	1st				190	190	190		190
Bennettsville, SC	2nd				90	90		90	90
Dryden, ON (currently idled)	4th			50		50		50	50
Espanola, ON	4th			240		240	240		240
Hawesville, KY	2nd				100	100		100	100
Kamloops, BC	3rd, worst in BC Interior			450		450		450	450
Lebel-sur-Quevillon, QC (shut down indefinitely)	4th			290		290	290		290
Plymouth, NC	2nd				160	160		160	160
Prince Albert, SK (shut down indefinitely)	4th			120		120		120	120
Woodland, ME	Hardwood, NA				240	240	240		240
Total Market Pulp				1,150	780	1,930	960	970	1,930
Total Pulp & Paper (short tons)				2,688	4,710	7,397	3,358	4,039	7,397
Distribution				36%	64%	100%	45%	55%	100%
<b>Paper Converting &amp; Forms (thousand short tons)</b>	NA				1,820			1,820	
<b>Lumber (Mfbm)</b>									
	North America Cash Cost								
9 sawmills in Eastern Canada, 1 in Saskatchewan	4th on average			1,300		1,300	1,100	200	1,300
<b>Packaging (thousand short tons)</b>									
50% of Norampac	NA					1,600	1,600		1,600

Source: RISI, Company reports and CIBC World Markets Inc.

We think the UFS mills (and perhaps the one sawmill in Ontario) are a good fit with Domtar's existing operations. However, we do not see the case for acquiring the market pulp mill in Kamloops, B.C. or the CGW mill in Columbus, MS.

- The Kamloops mill is estimated to be the one of the highest cost softwood kraft mills in the B.C. interior, and its long-term future is in question. It is also in a region in which Domtar has no existing operations, and produces a product that is not core to the company.

- The Columbus facility will be the only producer of CGW paper in the company. Furthermore, the site will continue to be shared with Weyerhaeuser, which is retaining ownership of the fluff pulp operation. Given the joint ownership of the overall site, the prospective buyers for the paper operation are very limited.
- Our conclusion is that in order for Domtar to complete this transaction, it had to adopt two orphans (or arguably three, if you include the sawmill in Big River, Saskatchewan).

## Commodity Outlook – A Challenging Segment Where Further Actions Might Be Needed

A relevant question to ask is whether exposure to UFS paper is a good thing at this point in time. Having increased by US\$150/ton so far this year, the price of the benchmark offset role is currently around US\$850. Furthermore, both Weyerhaeuser and Boise have announced a further US\$40/ton increase for September. Although earnings have clearly lagged, prices are now above our “normalized” estimate of US\$725/ton and we expect them to average US\$800/ton in 2007.

We maintain that the recent strength in UFS prices is primarily due to capacity closures rather than robust demand. The latest data show North American UFS demand fell 4.3% year over year in July and 1.3% year to date. On the other hand, North American UFS capacity has fallen by roughly 10% since the beginning of 2005 due to capacity closures.

The declining growth in North American demand for UFS paper is mainly due to its maturity. Going forward, we estimate the secular growth to be roughly 1%. The cut-size grade is the largest segment of the UFS market, accounting for approximately 40% of the total and growing at a slightly faster rate. However, its growth rate has also declined in recent years due to a range of factors (e.g., declining use of paper in offices due to greater use of email; general cost saving measures; decline in printed forms; substitution of coated grades for uncoated grades in advertising applications.) The growth in cut-size demand is somewhat counter-balanced by a decline in demand for forms bond, offset and computer printout paper — three grades in which the new Domtar has a greater than industry average focus.

We think further closures of UFS capacity are required to ensure the long-term profitability of the company. However, management is not discussing any closures at this point. To some extent, this is understandable since the most obvious closures in these two companies have already taken place. Nonetheless, we think many investors were hoping further industry consolidation would lead to more rationalization and higher operating rates.

If the demand for UFS paper continues to decline as expected, the most logical closure candidates for the new Domtar are likely the mills in Rothschild, WI and Dryden, Ontario. Both of these mills currently belong to Weyerhaeuser, and the future of the latter is heavily influenced by the outlook for the Canadian dollar and energy prices in Ontario. With seven small machines in total at the Domtar mills in Nekoosa and Port Edwards, we would also expect some additional rationalization in Wisconsin. Note that we do not expect the 290,000-tpy UFS machine in Prince Albert, Saskatchewan, which is shut down indefinitely, will ever be restarted.

The new COO has an excellent track record of accelerating creep capacity after M&A activity. However, given the large size of the new Domtar, this could serve to exacerbate the problem of excess industry capacity.

## Price Target Calculation

Based on a multiple of 6.0x 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.



# Appendix 1. Financial Statements

## Exhibit 6. Income Statement (C\$ mlns., except per share)

	2005A	2006E	2007E
Sales	\$4,966.0	\$4,663.4	\$7,355.7
Cost Of Sales	\$5,054.0	\$4,243.0	\$6,282.2
EBITDA	(\$88.0)	\$420.4	\$1,073.6
Depreciation	\$375.0	\$314.0	\$684.3
Operating Profit	(\$463.0)	\$106.4	\$389.3
Other Expenses (Gains)	\$0.0	\$0.0	\$0.0
Financial Expenses	\$150.0	\$155.0	\$276.4
Earnings Before Income Taxes	(\$613.0)	(\$48.6)	\$112.9
Income Taxes	(\$225.0)	(\$26.5)	\$39.5
Minority Interest	\$0.0	\$0.0	\$0.0
Net Earnings	(\$388.0)	(\$22.1)	\$73.4
Net Earnings Per Common Share (Fully Diluted)	(\$1.69)	(\$0.10)	\$0.14
EPS Before Unusual Items	(\$0.37)	(\$0.09)	\$0.14
Weighted Average Number Of Common Shares	229.7	230.2	512.0

Source: Company reports and CIBC World Markets Inc.

## Exhibit 7. Cash Flow Statement (C\$ mlns.)

	2005A	2006E	2007E
<b>Cash Flow Form Operations</b>			
Net Income	(\$388.0)	(\$22.1)	\$73.4
Depreciation	\$375.0	\$314.0	\$684.3
Deferred Income Taxes	(\$238.0)	(\$26.5)	\$39.5
Other	\$5.0	\$0.0	\$0.0
Minority Interest	\$0.0	\$0.0	\$0.0
Change In Non-cash Working Capital	(\$57.0)	\$54.4	(\$138.0)
	(\$303.0)	\$319.8	\$659.1
Investing Activities	\$159.0	(\$4,188.2)	(\$450.0)
Financing Activities	\$176.0	\$3,734.7	(\$3.0)
Increase (Decrease) In Cash	\$32.0	(\$133.7)	\$206.1

Source: Company reports and CIBC World Markets Inc.

**Exhibit 8. Balance Sheet (C\$ mlns.)**

	2005A	2006E	2007E
<b>Assets</b>			
Cash	\$62.0	\$0.0	\$134.4
Other Current Assets	\$1,036.0	\$942.0	\$1,433.0
<b>Total Current Assets</b>	<b>\$1,098.0</b>	<b>\$942.0</b>	<b>\$1,567.3</b>
Property, Plant & Equipment	\$3,634.0	\$7,437.0	\$7,202.7
Goodwill	\$92.0	\$92.0	\$92.0
Investments	\$0.0	\$0.0	\$0.0
Other Assets	\$309.0	\$380.2	\$380.2
<b>Total Assets</b>	<b>\$5,133.0</b>	<b>\$8,851.2</b>	<b>\$9,242.3</b>
<b>Liabilities</b>			
Bank Indebtedness	\$0.0	\$71.7	\$0.0
Other Current Liabilities	\$680.0	\$640.3	\$993.3
Current Portion Of Long-term Debt	\$2.0	\$2.0	\$59.0
<b>Total Current Liabilities</b>	<b>\$682.0</b>	<b>\$714.0</b>	<b>\$1,052.3</b>
Long-term Debt	\$2,257.0	\$3,843.0	\$3,784.0
Other Long-term Liabilities	\$331.0	\$331.0	\$331.0
Deferred Income Taxes	\$254.0	\$227.5	\$267.0
Minority Interest	\$0.0	\$0.0	\$0.0
<b>Total Liabilities</b>	<b>\$3,524.0</b>	<b>\$5,115.6</b>	<b>\$5,434.3</b>
<b>Equity</b>			
Common Shares	\$1,783.0	\$3,932.7	\$3,932.7
Preferred Shares	\$36.0	\$36.0	\$36.0
Retained Earnings	(\$19.0)	(\$42.1)	\$30.3
Surplus	(\$191.0)	(\$191.0)	(\$191.0)
<b>Total Shareholders' Equity</b>	<b>\$1,609.0</b>	<b>\$3,735.6</b>	<b>\$3,808.0</b>
<b>Total Liabilities And Shareholders' Equity</b>	<b>\$5,133.0</b>	<b>\$8,851.2</b>	<b>\$9,242.3</b>
Share Outstanding (mlns.)	227.7	227.7	227.7
Book Value	\$6.91	\$16.25	\$16.57
Total Debt To Total Capital	58%	51%	49%

Source: Company reports and CIBC World Markets Inc.

## Our EPS estimates are shown below:

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	1 Qtr.	2 Qtr.	3 Qtr.	4 Qtr.	Yearly
2005 Current	\$0.04A	\$0.01A	(\$0.17A)	(\$0.25A)	(\$0.37A)
2006 Current	(\$0.13A)	\$0.01A	\$0.02E	\$0.01E	(\$0.09E)
2007 Current	--	--	--	--	\$0.14E

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Cascades Inc. (2a, 2e, 2g, 4a, 4b, 7) (CAS-TSX, \$12.25, Sector Performer)

Fraser Papers (2g) (FPS-TSX, \$7.20, Sector Underperformer)

International Paper Co. (IP-NYSE, US\$34.97, Sector Performer)

Weyerhaeuser Co. (2a, 2e) (WY-NYSE, US\$62.37, Sector Performer)

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### **Stock Prices as of 09/01/2006:**

UPM-Kymmene Corp. (UPM-NYSE, US\$23.65, Not Rated)

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- 2d CIBC World Markets Corp. has received compensation for investment banking services from this company in the past 12 months.
- 2e CIBC World Markets Inc. has received compensation for investment banking services from this company in the past 12 months.
- 2f CIBC World Markets Corp. expects to receive or intends to seek compensation for investment banking services from this company in the next 3 months.
- 2g CIBC World Markets Inc. expects to receive or intends to seek compensation for investment banking services from this company in the next 3 months.
- 3a This company is a client for which a CIBC World Markets company has performed non-investment banking, securities-related services in the past 12 months.
- 3b CIBC World Markets Corp. has received compensation for non-investment banking, securities-related services from this company in the past 12 months.
- 3c CIBC World Markets Inc. has received compensation for non-investment banking, securities-related services from this company in the past 12 months.
- 4a This company is a client for which a CIBC World Markets company has performed non-investment banking, non-securities-related services in the past 12 months.
- 4b CIBC World Markets Corp. has received compensation for non-investment banking, non-securities-related services from this company in the past 12 months.
- 4c CIBC World Markets Inc. has received compensation for non-investment banking, non-securities-related services from this company in the past 12 months.
- 5a The CIBC World Markets Corp. analyst(s) who covers this company also has a long position in its common equity securities.
- 5b A member of the household of a CIBC World Markets Corp. research analyst who covers this company has a long position in the common equity securities of this company.
- 6a The CIBC World Markets Inc. fundamental analyst(s) who covers this company also has a long position in its common equity securities.
- 6b A member of the household of a CIBC World Markets Inc. fundamental research analyst who covers this company has a long position in the common equity securities of this company.
- 7 CIBC World Markets Corp., CIBC World Markets Inc., and their affiliates, in the aggregate, beneficially own 1% or more of a class of equity securities issued by this company.
- 8 A partner, director or officer of CIBC World Markets Inc. or any analyst involved in the preparation of this research report has provided services to this company for remuneration in the past 12 months.
- 9 A senior executive member or director of Canadian Imperial Bank of Commerce ("CIBC"), the parent company to CIBC World Markets Inc. and CIBC World Markets Corp., or a member of his/her household is an officer, director or advisory board member of this company or one of its subsidiaries.
- 10 Canadian Imperial Bank of Commerce ("CIBC"), the parent company to CIBC World Markets Inc. and CIBC World Markets Corp., has a significant credit relationship with this company.
- 11 The equity securities of this company are restricted voting shares.
- 12 The equity securities of this company are subordinate voting shares.
- 13 The equity securities of this company are non-voting shares.
- 14 The equity securities of this company are limited voting shares.

## CIBC World Markets Price Chart



### HISTORICAL PERFORMANCE OF CIBC WORLD MARKETS' RECOMMENDATIONS FOR DOMTAR INC. (DTC)

Date	Change Type	Closing Price	Rating	Price Target	Coverage
10/15/2003	▲	15.36	SP	17.50	Don Roberts
06/04/2004	▲	17.08	SP	19.00	Don Roberts
02/06/2005	▲●	11.83	SO	16.00	Don Roberts
06/07/2005	▲	9.25	SO	12.00	Don Roberts
07/27/2005	▲	9.11	SO	12.50	Don Roberts
09/14/2005	▲	8.47	SO	11.00	Don Roberts
10/27/2005	▲	5.25	SO	9.00	Don Roberts
03/09/2006	▲●	6.93	SP	6.50	Don Roberts
04/18/2006	●	8.01	SU	6.50	Don Roberts
05/29/2006	▲	7.34	SU	6.00	Don Roberts
08/23/2006	▲	7.43	SU	6.50	Don Roberts

## CIBC World Markets' Stock Rating System

Abbreviation	Rating	Description
<b>Stock Ratings</b>		
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.
<b>Sector Weightings**</b>		
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 01 Sep 2006)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	315	40.0%	Sector Outperformer (Buy)	166	52.7%
Sector Performer (Hold/Neutral)	385	48.9%	Sector Performer (Hold/Neutral)	185	48.1%
Sector Underperformer (Sell)	60	7.6%	Sector Underperformer (Sell)	28	46.7%
Restricted	21	2.7%	Restricted	18	85.7%

### Ratings Distribution: Paper & Forest Products Coverage Universe

(as of 01 Sep 2006)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	2	14.3%	Sector Outperformer (Buy)	2	100.0%
Sector Performer (Hold/Neutral)	8	57.1%	Sector Performer (Hold/Neutral)	4	50.0%
Sector Underperformer (Sell)	3	21.4%	Sector Underperformer (Sell)	3	100.0%
Restricted	1	7.1%	Restricted	1	100.0%

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

\*Although the investment recommendations within the three-tiered, relative stock rating system utilized by CIBC World Markets do not correlate to buy, hold and sell recommendations, for the purposes of complying with NYSE and NASD rules, CIBC World Markets has assigned buy ratings to securities rated Sector Outperformer, hold ratings to securities rated Sector Performer, and sell ratings to securities rated Sector Underperformer without taking into consideration the analyst's sector weighting.

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