CIBC World Markets

Equity Research
Industry Update

January 25, 2008

Paper & Forest Products

Sector Weighting:
Underweight

Spotlight On The Paper & Wood Stocks

January 8, 2008 - January 25, 2008

This Issue's Highlight:

- **Executive Summary: Outlook For The Sector Through 2009:** Declining Demand, Capacity Closures And The Values Of The US$ Are The Drivers

Also Included In This Issue:

- **Norbord Inc.:** Is The Dividend At Risk?
- **Mercer International Inc.:** A Small Investor Requests Changes
- **Canfor Pulp Income Fund And SFK Pulp Fund:** Outlook Through 2009 – Better Prices, But Higher Costs
- **Newsprint: Acquisition Of SP Newsprint By White Birch Paper:** Good And Bad Implications For AbitibiBowater And Catalyst
- **Pulp:** December Statistics
- **Industry Flashes**
- **North American Valuations**

Upcoming Events:

Challenges And Opportunities In The North American Solid Wood Sector: Presentation by Woodbridge & Associates, 1:30 p.m.-3:30 p.m., Pan Pacific Hotel, Vancouver, British Columbia.

CIBC World Markets' Whistler Institutional Investor Conference, Feb 21-22, Whistler, British Columbia: The following paper & forest product companies are scheduled to make presentations at the conference: AbitibiBowater, Domtar, Canfor Pulp, Catalyst Paper, Cathay Forest Products, International Forest Products, Louisiana-Pacific, Mercer International, Norbord, TimberWest Forest, and West Fraser Timber.

All figures in Canadian dollars, unless otherwise stated.

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Commodity Price Forecasts

Exhibit 1. Commodity Price Summary

	Units	2003	2004	2005	2006	2007E	2008E	2009E	Normalized	Current Price	Comments
NBSK Pulp (N.E.)	m. ton	$525	$617	$611	$681	$800	$850	$820	$745	$880	Rising
Newsprint	m. ton	503	547	610	668	594	625	615	615	585	Rising
Uncoated Freesheet	sh. ton	628	676	727	823	818	830	820	760	850	Flat
Light Weight Coated	sh. ton	829	859	997	978	926	975	1,000	1,015	975	Flat
Linerboard	sh. ton	371	418	428	503	532	545	550	500	555	Flat
Lumber #2&Btr.	Mbf	278	394	353	296	251	275	330	375	208	Falling
OSB	Msf	380	369	319	218	161	160	190	225	137	Falling
Canadian Dollar	US$	0.72	0.77	0.83	0.88	0.93	1.00	1.00	1.00	0.97	Falling

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

Executive Summary: Outlook For The Sector Through 2009

Declining Demand, Capacity Closures And The Values Of The US$ Are The Drivers

(January 17, 2008)

On January 17, we published a 43-page report entitled, *Outlook For The Paper & Forest Products Sector Through 2009: Declining Demand, Capacity Closures And The Value Of The US$ Are The Drivers*. Here are the highlights:

We maintain our Underweight recommendation on the North American paper & forest products industry. However, despite a poor long-term outlook, we have been positively surprised by the depth and breadth of capacity closures in the global paper industry.

In terms of relative ratings, as of January 17, we are upgrading International Paper (IP-NYSE), Domtar (UFS-NYSE), Louisiana-Pacific (LPX-NYSE) and Cascades (CAS-TSX) from SP to SO, and AbitibiBowater (ABH-NYSE) and Catalyst (CTL-TSX) from SU to SP. We are also downgrading Interfor (IFP.A-TSX) from SO to SP.

Within this difficult industry, our top three picks are Domtar, International Paper and Mercer (MERC-SO) as these companies have less exposure to the strong Canadian dollar. The first two also benefit from the reduction in the North American uncoated freesheet (UFS) paper capacity and enjoy relatively strong balance sheets.

Cascades is the only Canadian company expected to post a profit in 2008, and next year we only expect it to be joined by West Fraser (WFT-SP), Norbord (NBD-SP) and Interfor.

The objectives of this report are threefold:

1. To revise our 2008 and introduce our 2009 commodity price forecasts and exchange rate assumptions.
2. To revise our 2007 and 2008 and introduce our 2009 earnings estimates for the 14 paper & forest products companies we cover based on the new commodity prices and exchange rate forecasts.
3. To adjust our price targets and ratings as necessary in light of the above changes.

Despite the recent financial market turmoil, the global economy is still expected to grow above the long-term trend over the next two years reflecting sound fundamentals and the strong momentum in emerging markets. The relatively strong global growth bodes well for commodities with an international focus, like market pulp. However, the economic growth in the U.S. is forecast to remain relatively weak during this period. This is primarily due to the excessive inventory of homes for sale, which will postpone any housing start recovery.

The below-trend GDP growth in the U.S. is expected to put some downward pressure on the demand for paper grades that have a North American focus. In most cases, this cyclical slowdown is combined with a secular downward trend in consumption. The weakness in the U.S. residential housing sector also has a direct negative implication for lumber and panel prices. However we remain optimistic in our post-2009 outlook for U.S. construction activity.

In addition to weakening demand, companies continue to face high energy, chemical and fibre costs, and in the case of Canadian operations, a very strong Canadian dollar.

The key elements of our investment thesis for the paper & forest products industry in North America are as follows:

- Our call on the Canadian stocks continues to be a call on the Canadian dollar. To the extent the Canadian dollar weakens relative to the U.S. dollar, the paper & forest products sector should arguably be one of the biggest "winners" in the Canadian stock market. By the same token, a weaker U.S. dollar against the major currencies is, in isolation, a clear positive for the U.S.-based stocks.
- We think most pulp, paper and packaging prices are close to their cyclical peaks. To the extent that prices remain relatively high, it will be due more to "cost push" than "demand pull" forces – not a very exciting prospect. We also caution investors against searching for a "favorite" grade of paper. The increasing ability to switch between paper grades on both the supply and demand side of the market means that the prices and profitability of various paper grades are becoming more highly correlated over time.
- Over the last several months, we have been positively surprised by the breadth and depth of capacity closures that have been announced in both the North American and European paper industries. This is particularly true in the newsprint and UFS segments. Despite significant ongoing growth in new capacity in China, we are also encouraged by anecdotal evidence of meaningful closures of higher cost, highly polluting capacity in that country. In late Q4/07, the powerful National Development and Reform Commission announced its intention to shut down 6.5 million tonnes of capacity over the 2007-2010 period. Although a breakdown was not given by grade, we think the majority will involve non-wood pulp and lower quality printing & writing papers.
- We think building materials prices will hover around cash costs through early 2009 until excess inventories in the U.S. housing market are depleted. A recovery is expected sooner for lumber than panels due to the increasing supply of the latter.
- The shift in global paper demand and capacity from the Northern Hemisphere to developing regions like China, which are short of fibre, will result in increasing demand for fibre sources like market pulp, wastepaper and timber. Market pulp and wastepaper are truly global commodities, but timber remains a more regional product for which North American prices in the short term will remain driven by the weak housing sector. Our outlook for timber outside North America remains very positive.
- Due to the uncertain macroeconomic environment, most companies are implementing debt reduction and cash preservation plans. We expect relatively little M&A activity in the North American industry in 2008. To the extent it occurs, the emphasis will tend to be on transactions involving business units (e.g., Weyerhaeuser's (WY-SP) packaging operations); and mergers rather than acquisitions – managements will want to spread the risk. A key analytical challenge for investors is to assess how the asset base of most companies will change over the next 12-18 months as they continue to rationalize their operations.

Given the lackluster outlook and the industry's chronically low profitability, we maintain our Underweight recommendation on the North American paper & forest products sector as a whole. On a relative basis, our top three picks in this difficult industry are Domtar, International Paper and Mercer as these companies have less exposure to the strong Canadian dollar. The first two should also benefit from more aggressive reductions in industry capacity than we had anticipated.

Norbord Inc.

Is The Dividend At Risk?

(January 24, 2008)

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

With its current dividend yield at roughly 7%, Norbord has offered one of the best dividend yields within the basic materials universe for a long period of time. However, given the ongoing severe correction in the U.S. housing sector, there is legitimate concern that the dividend is at risk.

The current dividend of C$0.40 per year has been in place since 1991, and our sense is that the company and its yield-sensitive investor base would like it maintained if possible. However, as acknowledged in the Q3 conference call, the board routinely reviews the dividend policy.

Despite a $35 million increase in the revolving bank line, the company's available liquidity fell from $310 million in Q1/07 to $279 million in Q3/07. A significant portion of the available liquidity will be used to repay $200 million of notes due in March 2008.

Given its low-cost position, we do no think Norbord is subject to financial distress or that it will even completely eliminate its dividend. However, we do subjectively place a 75% probability that its dividend payout will be reduced over the next three to six months, thus creating some "event risk".

The drop in liquidity from Q1/07 to Q3/07 is largely attributable to the lack of free cash flow, the dividend, higher than usual capital expenditures and a one-time increase in working capital of $79 million necessary to support and grow the European business. Norbord increased its export of oriented strand board (OSB) from North America to Europe in 2007. The inventory build due to longer shipping times, and differences in North American and European collection terms has necessitated an increase in Norbord's working capital investment.

In Q1/07, the company pre-funded the March 2008 repayment with the issuance of $200 million of notes due in 2017. Pro forma to the March 2008 maturity, the available liquidity would stand at only $79 million. However, there are two other sources of liquidity in the short term:

- Norbord anticipates to receive a significant tax refund. Losses incurred in 2007 can be carried back and applied against taxes paid for a cash refund in 2008. Losses incurred in the first nine months of 2007 would result in a refund of approximately $50 million.

- In November 2007, Norbord finalized a $50 million accounts receivable securitization facility. This facility provides the company with an additional source of liquidity. Norbord's accounts receivable pool could support up to a $100 million securitization and the company will pursue opportunities to increase the facility in the future.

Including the above sources of funds, the available liquidity would stand at $179 million pro forma to the maturity.

We think that the room to maneuver is becoming thin in light of the current market conditions. In Q1/07, when OSB prices were similar to current levels of roughly $140/Msf, Norbord generated only $4 million in EBITDA. Assuming maintenance capital expenditures of $15 million and the current interest expense, free cash flow would have been -$51 million on an annualized basis. Although we think that the current market conditions are not sustainable, as an estimated 90% of the North American capacity is cash negative, the company's liquidity will disappear in about a year and a half if these conditions persist and the dividend is maintained (see Scenario 2 in Exhibit 2). It should be noted that Q1/07 results were boosted by very strong market conditions in Europe and that panel prices in Europe have started to decline recently.

Exhibit 2. Cash Flow Analysis ($ mlns.)

	Scenario 1	Scenario 2
OSB Prices (US$/Msf)	$160	$140
Quarter Of Reference	Q2/07	Q1/07
Annualized EBITDA	$68	$16
Interest	$52	$52
Maintenance Capex	$15	$15
Free Cash Flow	$1	-$51
EBITDA To Interest	1.31	0.31
North American Capacity That Is Cash Negative	73%	92%
Dividend	$58	$58
Liquidity:		
Bank Line	$231	$231
Cash	$48	$48
Expected Tax Refund	$50	$50
Receivable Securitization Facility	$50	$50
Notes Repayment In 2008	-$200	-$200
	$179	$179
Number Of Years Of Liquidity (Full Dividend)	3.1	1.6
Number Of Years Of Liquidity (No Dividend)	Infinite	3.5

Source: Company reports and CIBC World Markets Inc.

Under our 2008 OSB forecast of $160/Msf (Scenario 1), we estimate that Norbord would roughly break even in terms of free cash flow using Q2/07 as a proxy. However, after the annual dividend, the cash burn rate is still high and current liquidities would be sufficient for just over three years. Although roughly 75% of the North American OSB capacity is estimated to be cash negative under such a scenario, we think that an average OSB price of $160/Msf could be sustained for some time.

It should be noted that the current annual dividend of $0.40/share is less expensive than it appears to be as a significant portion of it is re-injected in the company through the Dividend Reinvestment Plan. During the first nine months of 2007 and 2006, 40% and 22% of the dividend was re-invested under the plan, respectively. Assuming that 40% of the dividend is re-injected, the number of years of liquidity shown in Exhibit 1 increases by two years under Scenario 1 and half a year under Scenario 2. However, the percentage of re-investment is unpredictable.

In 2007, OSB prices averaged $161/Msf. Although the weak market conditions experienced in 2007 have resulted in the postponement or cancellation of a number of new OSB mill projects, OSB capacity is still expected to increase by 8% in 2008 and 5% in 2009 assuming a normal ramp-up period. However, greater OSB capacity, weak demand and new environment regulations are expected to force roughly 4.5 Bsf of plywood capacity to close over the same period. These closures amount to about 25% of the total plywood capacity in North America. Net of plywood closures, North American structural capacity is still estimated to increase by 5% in 2008 and 3% in 2009. This new capacity will delay the price recovery.

In August 2007, Standard & Poor's lowered its ratings on Norbord to BBB- from BBB with a negative outlook. Earlier in 2007, Moody's lowered its rating of Norbord from Baa3 to Ba1, which is below investment grade. Norbord had been investment grade since 1992. These downgrades will somewhat reduce the company's access to financial markets for further liquidity.

Given the current depressed share price, our sense is that the market has already partly discounted a likely reduction in the dividend. Nevertheless, we are reducing our 12- to 18-month price target from C$8.00 to C$7.00 to reflect the recent decrease in the company's NAV resulting from the additional debt incurred in 2007. The NAV calculation shown in Exhibit 3 largely reflects precedent transaction prices listed in Exhibit 4, while costs of construction are summarized in Exhibit 4.

Norbord owns the lowest cost portfolio of OSB mills in the global industry, and we are confident it would be among the "last persons standing" in any worst case scenario. Having said that, even Norbord is being forced to take market-related downtime under the current market conditions.

Exhibit 3. NAV Calculation

North American Panels (C$)	Capacity	Unit	Value Per Unit		Rational
OSB	4,370,000	Msf (3/8")	$236	1,031,320,000	Average of precedent transactions in US$
MDF	160,000	Msf (3/8")	$275	$44,000,000	50% of replacement cost
Plywood	80,000	Msf (3/8")	$83	$6,620,000	Based on average OSB adjusted for GP/LP OSB/plywood asset swap ratio (4:1)
European Panels (C$)					
Panels	1,285,000	Msf (3/8")	$318	$409,000,000	Acquisition price + major capex
Agglo NV	430,000	Msf (3/8")	$149	$64,000,000	Acquisition price
Subtotal				$1,554,940,000	
Less: Net Debt (C$)				$593,000,000	
Expected Tax Refund				-$50,000,000	
Preferred shares (C$)				$0	
Equity Value (C$)				$1,011,940,000	
Number Of Shares				$145,900,000	
Net Value Per Common Share (C$)				$6.94	
Current Share Price (C$)				6.10	
Current TEV (US$)				$1,432,990,000	
Implied OSB Value Per Msf (US$)				$208	

Source: Company reports and CIBC World Markets Inc.

Exhibit 4. OSB Construction Costs

Company	Location	Start Up	Cost (C$)	Capacity (Msf 3/8")	Cost/Msf
Ainsworth	100 Mile House, B.C.	Q4/94	$108,000,000	365,000	$296
Ainsworth	Grand Prairie, Alberta	March 1995	142,500,000	540,000	264
H.J. Forest	Wawa, Ontario	October 1995	108,000,000	385,000	281
Norbord	Tupelo, Mississippi	October 1995	121,621,622	400,000	304
Slocan	Fort Nelson	February 1996	130,000,000	395,000	329
Eagle Forest Products	Chatham, N.B.	August 1996	90,000,000	325,000	277
Boise	Barwick, Ontario	1997	135,135,135	400,000	338
Saskfor Products	Hudson Bay, Sask.	September 1997	180,000,000	570,000	316
Forex	Maniwaki, Quebec	June 1997	120,000,000	621,469	193
Nexfor	South Carolina	May 2000	171,641,791	500,000	343E
Nexfor	Alabama	2001	179,104,478	500,000	358E
Grant Forest Products	Allendale, SC	Late 2006	250,000,000	800,000	313
Grant Forest Products	Clarendon, SC	2007	250,000,000	800,000	313
Ainsworth	Grand Prairie, Alberta	Q1/07	180,000,000	600,000	300
Ainsworth	Quesnel	2009-10		750,000	
Ainsworth	Lisbon, NY	2009-10	150,000,000	500,000	300
LP	Clarke County, Alabama	Late 2007	182,926,829	700,000	261
Norbord	Cordele, Georgia	Q4/06	151,685,393	550,000	276
LPX/CFP	Fort St. John, B.C.	Q4/05	250,000,000	820,000	305
Fort Nelson	Fort Nelson, B.C.	Q2/05	25,600,000	115,000	223
Langboard	Quitman, Georgia	November 2005	97,222,222	220,000	442
Tolko	Alberta	Summer 2007	200,000,000	800,000	250
Huber Engineered Woods	Emanuel County, Georgia	2008	224,719,101	650,000	346
Average					295

Source: Company reports and CIBC World Markets Inc.

Exhibit 5. Precedent Transactions

Company	Buyer	Date	Capacity (Msf - 3/8")	Price/Msf (US$)
Wawa	MacBlo	Nov-96	385,000	169
Timmins	Grant	Oct-98	500,000	209
Eagle Forest	MacBlo	Jan-99	400,000	173
Chambord	Forex	Apr-99	508,475	127
Saskfor	MacBlo	May-99	210,000	210
Forex	LP	Sep-99	1,638,418	324
IP	Nexfor	Apr-02	1,155,000	218
Slave Lake	Tolko	Feb-03	240,000	154
Mead	Nexfor	Feb-04	440,000	161
Voyageur	Ainsworth	Apr-04	440,000	439
Potlach	Ainsworth	Aug-04	1,300,000	352
Tembec	Jolina (Saputo)	Jan-06	283,000	298
Average				$236

Source: Company reports and CIBC World Markets Inc.

In summary, we think that a reduction in the dividend is increasingly possible in order to maintain the company's financial flexibility. Having said this, we do not think that there is a meaningful risk of financial distress. Since the complete elimination of the dividend would also force some of its yield-oriented investors to liquidate their positions, we also do not expect the dividend to be reduced to zero.

Price Target Calculation

Because of the depressed OSB market conditions expected next year, our traditional valuation method based on a 6.25x multiple on our EBITDA estimates would lead to a very low price target. However, given the good quality of the company's assets and its low-cost position, we do not think that the stock should stay below its estimated NAV. As a result, our price target is C$7.00.

Key Risks To Price Target

Potential risks to our price target include a larger-than-expected correction in U.S. housing starts, which would result in low building materials prices, and upward pressure on input prices.

Mercer International Inc.

A Small Investor Requests Changes

(January 16, 2008)

All figures in euros, unless otherwise stated.

A committee has been established by some shareholders to unlock value by requesting drastic corporate changes and to either have the company sold or create a joint venture with a strategic investor. The shareholder behind that committee owns only 2% of Mercer.

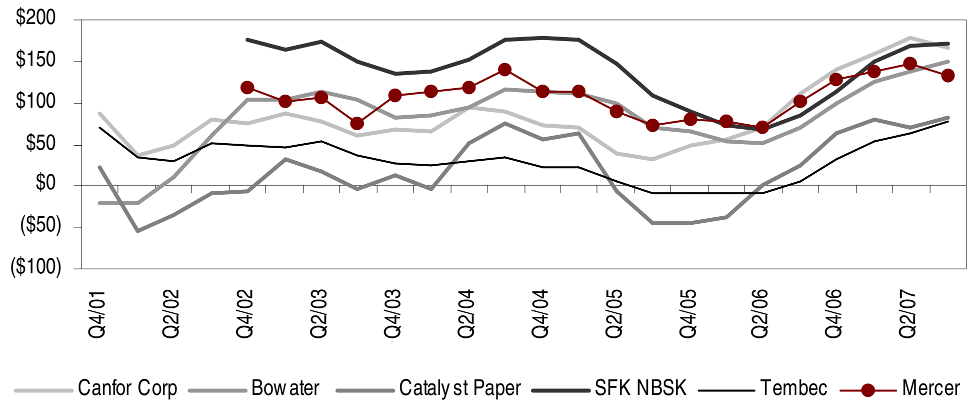
The unsatisfied shareholder is Mass Financial Corp. It stated that it owns 700,000 shares of Mercer, which is information we can not verify. We are not aware of any other dissident shareholders.

Mass is critical of the company's financial performance in light of the fact that pulp prices are at a 12-year high in U.S. dollar terms. We think that Mercer's performance is understandable given the strong Canadian dollar and euro, and the significant increase in wood costs in Germany and Canada.

We think that the company is doing the right things by focusing on its capital improvement program, marketing and the ramping up of its new mill in Germany in order to mitigate the impact of strong domestic currencies and rising fibre costs.

Exhibit 6 shows that Mercer's EBITDA/tonne has evolved in a similar fashion to that of other pulp producers in our universe as all these companies are facing similar challenges to various degrees.

Exhibit 6. LTM EBITDA Per Tonne



Source: Company reports and CIBC World Markets Inc.

Price Target Calculation

Our US$13.50 price target is based on our 2007 forecast total enterprise value (TEV) of 1,096 million, which is 8.5x our EBITDA estimate (25% of the remainder of 2007 and 75% of 2008). To isolate our market-cap target, we add to TEV the expected free cash flow of 50 million over the next 12 months and deduct the current net debt of 787 million and the minority interest of 34 million. This results in a target market capitalization of 325 million, or approximately 10/share or US$13.50/share. Our target multiple is at a premium to the average in our universe due to Mercer's lower capital intensity and the company's ability to leverage its balance sheet while maintaining its low interest cost.

Key Risks To Price Target

Potential risks to our price target include a weaker-than-expected global economy that would negatively impact pulp prices, continuing upward pressure on the Canadian dollar and the euro, execution risks on cost-reduction projects, and a continuing increase in fibre prices.

Canfor Pulp Income Fund And SFK Pulp Fund

Outlook Through 2009 – Better Prices, But Higher Costs

(January 17, 2008)

We are assuming a modest deceleration of global growth spread across most regions in 2008. However the economic growth is expected to remain above the long-term trend. This relatively strong global growth bodes well for commodities with an international focus, such as market pulp.

We expect the benchmark NBSK price to rise from an average of US$800/tonne in 2007 to US$850/tonne in 2008 and to decline to US$820/tonne in 2009.

Despite these strong forecasts, margins are not expected to expand significantly in 2008 in Europe and Canada as pulp prices will remain relatively flat in euros or Canadian dollars and fibre costs have increased by roughly US$100 per tonne of pulp on average over the last five years.

In light of our higher pulp price forecasts, we are making the following changes in our estimates:

- For Canfor Pulp Income Fund (CFX.UN-SO), we are increasing our 2008E DCFPU from $1.49 to $1.70. We expect DCFPU to increase slightly in 2009 to $1.74. Despite our higher estimates, we are reducing our price target from $14.00 to $13.00.

- For SFK (SFK.UN-SP), we are increasing our 2008E DCFPU from $0.40 to $0.55. We expect the DCFPU to decrease slightly in 2009 to $0.46. We maintain our $2.50 price target.

Further details on our financial forecasts and target calculations are provided below.

Macroeconomic Assumptions

Our underlying macroeconomic assumptions for economic growth are from the International Monetary Fund (IMF) and are summarized in Exhibit 7. We are assuming a modest deceleration of global growth spread across most regions in 2008. However, the global economic growth is expected to remain above the long-term trend of 4.5% and to rebound somewhat in 2009. This relatively strong global growth bodes well for commodities with an international focus, such as market pulp. The U.S. economic growth is expected to stay below its potential in 2008, and is forecast to be the major region with the slowest growth in 2008 after Japan.

Exhibit 7. Real GDP Growth Rates

	2004	2005	2006	2007	2008	2009
U.S.	3.9%	3.1%	2.9%	1.9%	1.9%	NA
Euroland	2.1%	1.5%	2.8%	2.5%	2.1%	NA
Central Europe	5.0%	5.6%	6.3%	5.8%	5.2%	NA
Russia	7.2%	6.4%	6.7%	7.0%	6.5%	NA
China	10.1%	10.4%	11.1%	11.5%	10.0%	NA
India	8.0%	9.0%	9.7%	8.9%	8.4%	NA
Japan	2.3%	1.9%	2.2%	2.0%	1.7%	NA
Brazil	4.9%	2.9%	3.7%	4.4%	4.0%	NA
World	5.3%	4.8%	5.4%	5.2%	4.8%	5.0%

Note: 2008 and 2009 are estimates.

Source: IMF.

Arguably, the most difficult variables to assess in our outlook are exchange rates. As a result, we assume that exchange rates will remain around their current values for the forecast period (including our normalized estimates). Consequently, our forecasts reflect a US$/C$ exchange rate of US$1.00 and a US$/euro rate of US$1.45. Shifts in the global cost curves are increasingly driven by shifts in exchange rates; thus, our exchange rate assumptions are key in forming our view of relative profitability in the global paper & forest products industry. We estimate that a US$0.01 change in the Canadian dollar would impact SFK's DCFPU by $0.03.

Market Pulp

Market pulp is arguably the most important bellwether grade in the paper & paperboard industry. Not only is it the most globally traded commodity in the industry, but its role as an intermediate product provides insight into changes in the marginal supply and demand for some of the more processed products. Our pulp price forecasts are driven by the global supply/demand outlook. For other grades, we focus more on the North American market, although global operating rates give some indications of export markets and the risk of overseas imports into North America.

We continue to be more bullish on pulp prices than on the various paper grades over the forecast horizon for the following reasons:

- Pulp is less exposed to the softening U.S. economy.
- Demand for pulp is not in decline globally, although paper demand in North America is on a secular downward trend.
- We expect a moderation in new capacity in 2008.
- The strong euro and Canadian dollar and rising wood fibre prices are placing upward pressure on prices.

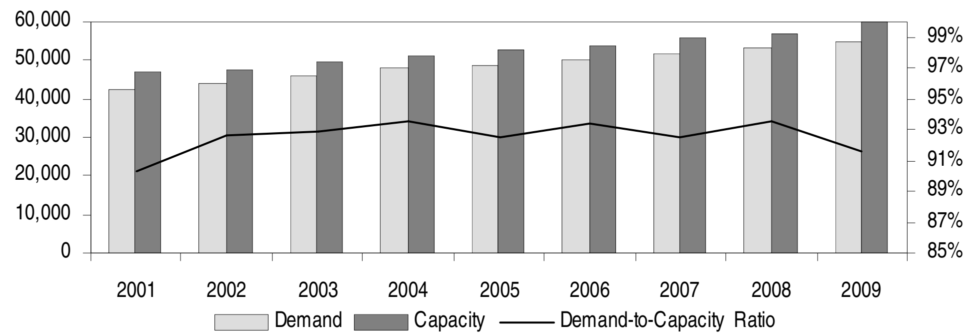
For 2009 and beyond, we expect significant uncertainty in the fundamental demand/supply outlook for pulp. The reasons include:

- Greater-than-historical levels of capacity expansion. For example, some industry pundits like Hawkins Wright expect roughly 1.3 million tonnes of new capacity to be built each year over the next five years. This compares with an average of 800,000 tonnes per year (tpy) over the past 10 years. However, in our view, given escalating wood costs and strengthening currencies in key producing countries, it is unclear how much of the announced capacity will actually be constructed.
- Exchange rates are expected to remain volatile, and this arguably has a greater impact on market pulp than any other segment of the paper & forest products sector. Note that approximately 80% of market pulp crosses an international border to reach its market. Roughly 40% of market pulp crosses an ocean, which also makes energy and ocean freight rates important sources of uncertainty.
- Although it is very difficult to monitor, our understanding is that the Chinese Government is starting to force the closure of significant volumes of old, polluting pulp mills in that country. The Chinese Government has indicated its intention to close three million tonnes of polluting straw-base pulp mills. If these closures translate into an equivalent increase in market pulp demand, it would represent a 6% increase at the global level.
- The shift in global paper demand and capacity from the traditional producing regions to developing regions like China, which are short of fibre, will result in increasing demand for market pulp.

With capacity reductions corresponding to roughly 4.5 million tonnes at 38 mills in 2006-07, the global operating rate has remained at healthy levels despite the startup of new capacity in Latin America and Asia. While there remains a lot of low-cost pulp capacity being considered in South America, we expect a pause in 2008 before the next round of increases in 2009. It appears that the significant amount of new capacity installed in 2007 will be absorbed without too much disturbance. This will be facilitated with expected capacity reductions of almost 1.9 million tonnes across 10 different mills in 2008.

As illustrated in Exhibit 8, we are predicting that the global operating rate for market pulp in aggregate will improve slightly from 93% in 2007 to 94% in 2008, but retreat to 92% in 2009. The increase in demand is estimated using our global GDP assumptions and a regression between GDP and consumption of softwood and hardwood pulps. These operating rates are expected to drive an improvement in average pulp prices in 2008, followed by a modest easing in 2009. Given the time needed to build a world-class pulp mill, we think that there is relatively good visibility on new capacity through 2009.

Exhibit 8. Global Market Pulp Operating Rate (000 tonnes)



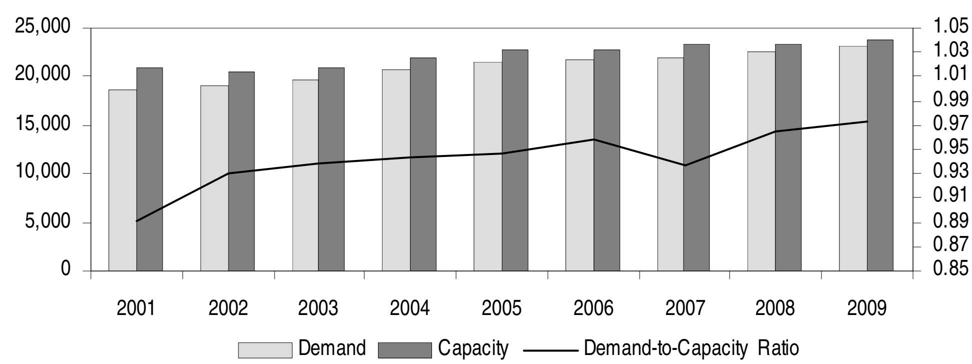
Note: 2008 and 2009 are estimates.

Source: NLK, RISI and CIBC World Markets Inc.

Due to the forecasted changes in the composition of capacity, we also expect the price premium on softwood relative to hardwood pulp to remain high over the next two years (see Exhibits 9 and 10):

- We expect global softwood mills to basically run at full capacity for the forecast period.
- In the global hardwood industry, we expect the operating rate to fall from 95% in 2007 and 2008 to 90% in 2009. This reflects the start-up in 2009 of mills corresponding to an 11% increase in global hardwood capacity.

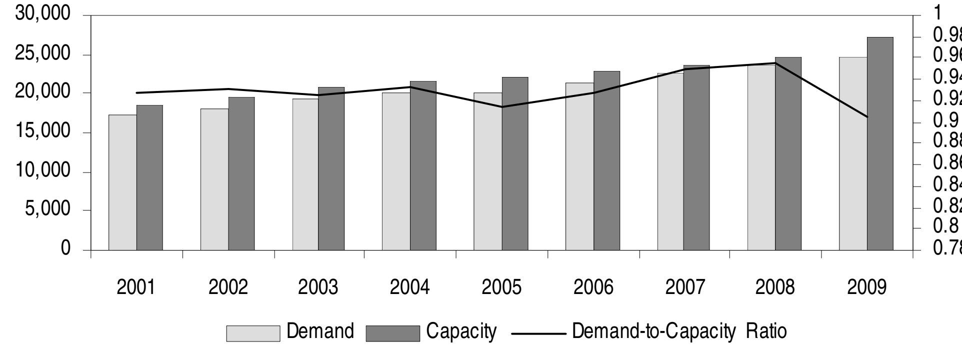
Exhibit 9. Global Softwood Market Pulp Operating Rate (000 tonnes)



Note: 2008 and 2009 are estimates.

Source: NLK, RISI and CIBC World Markets Inc.

Exhibit 10. Global Hardwood Market Pulp Operating Rate (000 tonnes)



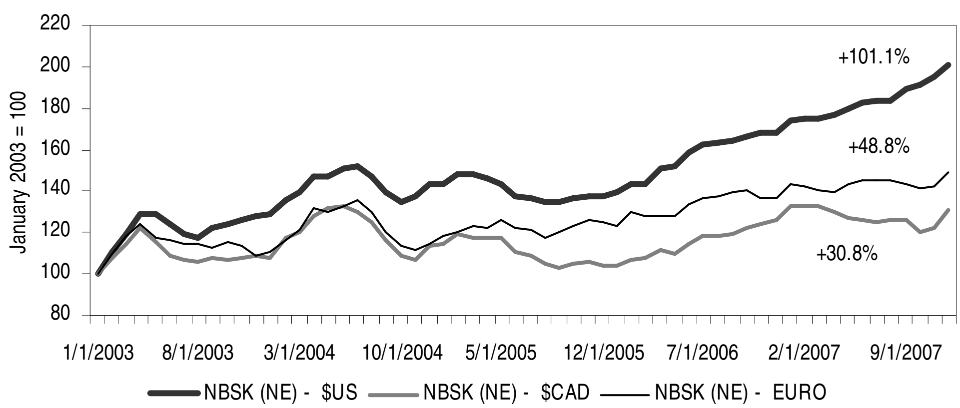
Note: 2008 and 2009 are estimates.

Source: NLK, RISI and CIBC World Markets Inc.

In light of the above, we expect the benchmark NBSK price to rise from an average of US$800/tonne in 2007 to US$850/tonne in 2008 and to decline to US$820/tonne in 2009. Despite these strong forecasts, margins are not expected to expand significantly in 2008 in Europe and Canada as pulp prices will remain relatively flat in euros or Canadian dollars (see Exhibit 11) and fibre costs have increased by roughly US$100 per tonne of pulp on average over the last five years in the Northern Hemisphere.

The role of exchange rate changes and their implications for domestic revenue streams is highlighted in Exhibit 11. Since January 2003, NBSK pulp prices denominated in U.S. dollars have risen roughly 100%, versus 50% when expressed in euros and 30% when expressed in Canadian dollars.

Exhibit 11. Index Of NBSK Pulp Prices When Denominated In Different Currencies



Source: Bloomberg, RISI and CIBC World Markets Inc.

There are some downside risks to our price forecasts as pulp is becoming very expensive for consumers paying in U.S. dollars or in currencies pegged to the U.S. dollar. These consumers account for 40% of global demand and their ability to pay is deteriorating. The high U.S. dollar prices might incite conservation measures and result in more U.S. paper producers shifting their production from paper to market pulp. Having said this, the downside may be relatively limited for NBSK due to the high marginal cost and threat of further closures.

Exhibit 12. Pulp Price Forecasts

	2000	2001	2002	2003	2004	2005	2006	2007	2008E	2009E	Normalized
NBSK Pulp (US$)	$680	$547	$461	$525	$617	$611	$681	$800	$850	$820	$745
Eucalyptus Pulp (US$)	$647	$488	$464	$514	$529	$577	$639	$704	$750	$710	$685
Spread (US$)	$33	$59	-$3	$11	$88	$34	$42	$96	$100	$110	$60
Euro/US$ Exchange Rate	$0.92	$0.90	$0.95	$1.14	$1.24	$1.24	$1.26	$1.37	$1.45	$1.45	$1.45
C$/US$ Exchange Rate	$0.67	$0.65	$0.64	$0.72	$0.77	$0.83	$0.88	$0.93	$1.00	$1.00	$1.00
NBSK Pulp (Euro)	739	608	485	461	498	493	540	584	586	566	514
NBSK Pulp (C$)	$1,015	$842	$720	$729	$801	$736	$774	$860	$850	$820	$745
Average Softwood/Hardwood	$664	$518	$463	$520	$573	$594	$660	$752	$800	$765	$715

Source: Pulp & Paper Week and CIBC World Markets Inc.

The condition of the swap market for NBSK pulp confirms our view that pulp prices will remain close to their cyclical peak until 2009. As of mid-January, the six-month, one-year, two-year and three-year TFS Mid Market Swap Prices for NBSK PIX are US$877/tonne, US$855/tonne, US$845/tonne and US$820/tonne, respectively.

The bulk of the transactions in January were around US$880/tonne in Europe, following the implementation of a US$30/tonne price increase in December.

SFK: Financial Forecasts And Recommendation

In light of our higher pulp price forecasts, we are increasing our 2008E DCFPU from $0.40 to $0.55. We expect the DCFPU to decrease slightly in 2009 to $0.46.

Despite our higher 2008 DCFPU forecast, we maintain our $2.50 price target because there are only three years of tax-free distributions on the horizon.

Price Target Calculation For SFK

Our $2.50 price target reflects the discount value of the expected distributions for the next three years and a terminal value of $2.00 at the end of the three-year period. We are using a discount rate of 10%. We assume that once the proposed legislation to tax income funds comes into force, SFK will be valued like a normal pulp & paper corporation. Our terminal value is based on a multiple of 7.0x our normalized EBITDA estimate of $46 million. The forecast total enterprise value (TEV) of $322 million is reduced by net debt of $146 million, resulting in a terminal equity value of $176 million, or roughly $2.00/share. Our calculation suggests that a multiple of 7x on SFK would provide investors with a reasonable return over a cycle. The higher multiple largely reflects the fact that SFK's business is less capital intensive, resulting in better cash flow per dollar of EBITDA.

Canfor Financial Forecasts And Recommendation

In light of our higher pulp price forecasts, we are increasing our 2008E DCFPU from $1.49 to $1.70. Despite weaker pulp prices, we expect DCFPU to increase slightly in 2009E to $1.74 due to a less busy maintenance schedule.

Given the 90% payout ratio, we expect distributions of $1.44/unit (prior $1.34) and $1.56/unit for 2008 and 2009, respectively. We think that the current distribution rate of $0.12/month is sustainable for the next two years.

Despite our higher 2008 DCFPU forecast, we are reducing our price target from $14.00 to $13.00 because there are only three years of tax-free distributions on the horizon.

Price Target Calculation For Canfor Pulp

Our $13.00 price target reflects the discounted value of the expected distributions for the next three years and a terminal value of $11.50 at the end of the three-year period. We are using a discount rate of 10%. We assume that once the legislation to tax income funds comes into force, Canfor Pulp will trade like a regular pulp and paper company. Our terminal value is based on a multiple of 6.0x our normalized EBITDA estimate of $150 million.

The forecast TEV of $900 million is reduced by the current net debt of $69 million, resulting in an equity value of $831 million or roughly $11.50/share. Our calculation suggests that a multiple of 6.0x on Canfor Pulp would provide investors with a reasonable return over a cycle.

Key Risks To Price Targets

Potential risks to our price target include a weaker-than-expected global economy that would negatively impact pulp prices, continuing upward pressure on the Canadian dollar, and an increase in fibre prices in B.C.

Newsprint: Acquisition Of SP Newsprint By White Birch Paper

Good And Bad Implications For AbitibiBowater And Catalyst

(January 21, 2008)

North America's fourth-largest newsprint manufacturer, SP Newsprint, has been bought for US$350 million by White Birch Paper. The price paid for this relatively good quality asset represents only US$350 per tonne of capacity.

SP Newsprint's two mills at Dublin, GA, and Newberg, OR, produce close to one million tonnes of recycled newsprint annually. White Birch Paper is the No. 2 producer in North America with 1.2 million tonnes of capacity.

On the positive side, if the transaction is approved by regulators, the North American newsprint sector will become even more consolidated, with the market share of the top five producers increasing from 79% to 85% (one of the highest percentages in the North American industry).

On the negative side, the above price is one of the lowest we have on record for a newsprint franchise. This confirms that the value of newsprint assets is on a downward trend. The low price paid has some negative implications on the value of AbitibiBowater and Catalyst.

According to our data base, SP Newsprint's two recycled-based mills are in the first quartile of the North American cost curve. The Newburg mill alone was purchased in 1999 by SP Newsprint for US$220 million and US$150 million was subsequently invested in the mill.

Applying the value of US$350/tonne on AbitibiBowater's 8.0 million tonnes of newsprint and uncoated groundwood paper capacity, as well as values of recent tentative and successful transactions on the company's other assets, results in a total value of only US$5.7 billion, which is just enough to cover the company's net debt of US$5.7 billion. Our price target on the company, which is based more on EBITDA, is US$18.00. We estimate that AbitibiBowater is presently trading at roughly US$500 per tonne of paper capacity.

To estimate the value of other assets, we used the following deals:

- The proposed acquisition of Pope & Talbot's (PTBT-PN) pulp assets by Sinar Mas (SMMA-JK) for US$274/tonne.
- The failed acquisition of Domtar's lumber assets by Conifex at $260/Mfbm.
- The acquisition of Stora Enso's (STERV-HE) North American coated paper assets by New Page for US$918/tonne.

The same transactions would suggest a value of only $0.35/share for Catalyst, which is much lower than our price target of $1.50 on the company. Our price target reflects a discount to previous M&A transactions.

This transaction also has more negative implications on AbitibiBowater, which is now trying to sell its Snowflake recycled newsprint mill in Arizona, as required by the U.S. Department of Justice following the merger between Abitibi-Consolidated and Bowater. We had put a value of $190 million on the 375,000-tpy mill, but based on the SP/White Birch deal, this mill would be worth only $130 million. However, this is positive for Catalyst, which might be on the buy side of that transaction.

Price Target Calculation - AbitibiBowater

Based on a multiple of 6.00x our EBITDA estimates, we have a price target of US$18.00 on AbitibiBowater. Our target multiple reflects historical valuation.

Price Target Calculation - Catalyst

Based on the relative quality of the underlying assets, we apply a 70% discount to our NAV estimate to determine our $1.50 price target on Catalyst.

Key Risks To Price Targets

Potential risks to our price targets include: 1) a weaker-than-expected global economy, which would result in lower forest products prices; 2) a sudden spike in energy prices, which would directly and indirectly raise the cost structure; and 3) an increase in the value of the Canadian dollar.

Pulp: December Statistics

Shipments To China Are Up Strong

(January 23, 2008)

Market Pulp (January 22, 2008): The market ended the 2007 year on a good note. Based on data released by the Pulp & Paper Products Council (PPPC), global shipments were up 4.5% in December, resulting in a year-to-date increase of 3.4%. Shipments to China were particularly strong, rising 66.8% year over year and 20.0% year to date. This is consistent with our view that the Chinese Government is following through with its plan to close small, highly polluting non-wood pulp mills and thus stimulating an increase in the demand for imported wood pulp.

Producers' inventories are flat at 29 days versus the prior month, but up from 28 to 32 days on a seasonally adjusted basis. They remain in balance. The operating rate is still strong at 96% (94% year to date).

NBSK pulp prices increased from US$875/tonne in December to US$880/tonne in January. Prices are expected to continue to go up, as Canfor Pulp hiked NBSK pulp prices by US$10/tonne in Asia, effective February 1, and Brazil's Aracruz Celulose SA (ARA-NYSE) announced global US$20/tonne-US$30/tonne February 1 bleached eucalyptus kraft (BEK) pulp price increases on January 22. The fact that the Canadian dollar is weakening against the U.S. dollar and the euro is very positive for Canadian producers as most competitors are in Europe.

Industry Flashes

Domtar (January 16, 2008): The company has announced that it will raise prices for UFS cut-size grades by US$60/tonne, effective February 15. If successful, this increase will raise prices to US$1,050/tonne — a 12-year high. However, there is a risk that increasingly expensive paper and the U.S. slowdown might accelerate the drop in demand, which was around 5% last year. The impact of such an increase on Domtar is US$120 million, or US$0.15/share. International Paper is also a large cut-size paper producer.

North American Valuations

(January 24, 2008)

Exhibit 13. North American Companies' P/E And TEV/EBITDA Valuation

	Mkt. Cap. ($ mlns.)	Float ($ mlns.)	Price 01/24/08	P/E			TEV/EBITDA				EBITDA ($ mlns.)				Price/ Tangible BV
				2007E	2008E	2009E	2007E	2008E	2009E	Normalized	2006	2007E	2008E	Normalized	
U.S. (US$)															
AbitibiBowater	$1,132	$1,085	$19.69	NM	NM	NM	38.1	9.5	7.8	7.7	$181	$724	$886	$898	0.38
Domtar	3,850	3,580	7.47	23.3	16.9	14.2	7.3	5.9	5.7	7.2	848	1,045	1,087	859	1.22
International Paper	13,002	12,945	30.81	13.6	12.0	12.9	6.5	5.9	6.4	8.1	2,816	3,101	2,865	2,268	3.02
Louisiana-Pacific	1,399	1,388	13.44	NM	NM	NM	(5.2)	(11.4)	12.5	2.5	-146	-67	60	297	0.80
Mercer International*	250	250	7.43	11.1	17.2	27.0	6.7	7.4	8.1	11.5	151	136	124	88	1.14
Weyerhaeuser	13,732	13,177	65.05	NM	29.7	17.6	11.3	10.2	8.2	8.9	1,892	2,094	2,602	2,397	2.61
Average	**5,561**	**5,404**		**16.0**	**19.0**	**17.9**	**10.8**	**4.6**	**8.1**	**7.6**					**1.53**
Canada (C$)															
Canfor	1,323	735	9.28	NM	NM	NM	177.1	60.2	9.2	4.7	11	33	214	417	0.67
Cascades	847	592	8.53	35.5	25.9	14.5	7.1	6.9	6.5	6.4	347	360	383	390	1.05
Fraser Papers* (US$)	143	104	2.89	NM	NM	NM	(4.5)	8.2	6.7	7.0	-30	16	20	19	0.43
Interfor	265	252	5.58	NM	NM	9.2	9.1	6.7	2.9	3.9	35	48	110	82	0.62
Norbord* (US$)	1,032	580	7.07	NM	NM	23.3	22.5	26.5	8.0	7.4	72	61	203	219	2.38
Catalyst Paper	344	344	1.60	NM	NM	NM	11.6	8.1	8.2	9.1	99	140	140	126	0.35
Tembec	45	37	0.53	NM	NM	NM	13.2	6.6	5.8	14.7	56	112	127	50	0.06
West Fraser	1,360	1,046	31.77	NM	NM	19.0	11.7	11.0	5.2	4.3	174	184	393	469	0.69
Average	**670**	**461**		**35.5**	**25.9**	**16.5**	**31.0**	**16.8**	**6.6**	**7**					**0.78**
Income Trusts (C$)															
Acadian Timber Income Fund	170	170	10.23				12.3	12.7	-	12.4	19	19	NA	19	
Canfor Pulp Income Fund	710	134	9.96				3.9	5.0	4.9	5.0	201	157	160	156	
PRT Regeneration Fund	63	62	6.52				6.3	6.4	-	5.7	11	11	NA	13	
SFK Pulp Fund	168	168	1.86				5.1	3.8	4.2	4.6	62	83	76	69	
Supremex Income Fund	187	187	5.96				6.8	6.1	-	5.6	41	46	NA	50	
TimberWest	1084.4	1084.4	13.95				24.4	11.0	-	10.3	54	119	NA	128	
Average	**397**	**301**					**9.8**	**7.5**	**4.5**						

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

* Mercer reports in euros and trades on NASDAQ. Data including price, market cap and float are in US$, all other figures are in euros.

Source: Company reports and CIBC World Markets Inc.

Exhibit 14. Summary Spreadsheet

Stock Rec.	Symbol	Company	Fiscal Year	Price 01/24/08	52-week High	52-week Low	Ind. Div.	Yield	Shares O/S (mlns.)	Mkt. Cap. ($ mlns.)	Float ($ mlns.)	Net Debt/ Capital	Fiscal Year EPS 2007E	Fiscal Year EPS 2008E	Fiscal Year EPS 2009E	P/E Multiples 2007E	P/E Multiples 2008E	P/E Multiples 2009E	BVPS	P/B	ROE 2007E	ROE 2008E	ROE 2009E	Total Implied Return[1]	12-mo. Price Target
U.S. (US$)																									
SP	ABH	AbitibiBowater	Dec.31	$19.69	$37.45	$14.99	$0.80	4.1%	57.5	$1,132	$1,085	64%	($5.20)	($4.07)	($1.69)	NM	NM	NM	$51.57	-	(27%)	(29%)	(17%)	(4.5%)	$18.00
SO	UFS	Domtar	Dec.31	7.47	11.52	6.67	0.00	0.0%	515.4	3,850	3,580	42%	0.32	0.44	0.52	23.3	16.9	14.2	6.25	1.2	3%	4%	4%	33.9%	10.00
SO	IP	International Paper	Dec.31	30.81	41.57	29.36	1.00	3.2%	422.0	13,002	12,945	38%	2.26	2.56	2.39	13.6	12.0	12.9	18.85	1.6	10%	11%	9%	33.1%	40.00
SO	LPX	Louisiana-Pacific	Dec.31	13.44	23.51	12.12	0.40	3.0%	104.1	1,399	1,388	(47%)	(1.05)	(0.88)	0.16	NM	NM	NM	19.39	0.7	(6%)	(5%)	1%	29.5%	17.00
SO	MERC	Mercer International[4]	Dec.31	7.43	13.73	6.92	0.00	0.0%	33.7	250	250	76%	0.49	0.32	0.20	11.1	17.2	27.0	6.50	1.1	7%	4%	3%	48.0%	11.00
SP	WY	Weyerhaeuser	Dec.31	65.05	87.09	59.69	2.00	3.1%	211.1	13,732	13,177	50%	1.58	2.19	3.70	NM	29.7	17.6	35.38	1.8	4%	6%	10%	3.0%	65.00
		Group Average						**2.2%**				**37.3%**				**16.0**	**19.0**	**17.9**		**1.3**	**-1.4%**	**-1.6%**	**1.8%**	**23.8%**	
Canada (C$)																									
SU	CFP	Canfor	Dec.31	9.28	13.98	7.54	0.00	0.0%	142.6	1,323	735	4%	(1.31)	(0.93)	(0.08)	NM	NM	NM	14.42	0.6	(11%)	(8%)	(1%)	(19.2%)	7.50
SO	CAS	Cascades	Dec.31	8.53	15.61	6.96	0.16	1.9%	99.3	847	592	59%	0.24	0.33	0.59	35.5	25.9	14.5	11.65	0.7	2%	2%	4%	19.1%	10.00
SU	FPS	Fraser Papers[2]	Dec.31	2.89	6.50	2.65	0.00	0.0%	49.5	143	104	9%	(2.22)	(0.30)	(0.09)	NM	NM	NM	6.71	0.4	(17%)	(3%)	(1%)	(22.1%)	2.25
SP	IFP.A	Int'l Forest Prod.	Dec.31	5.58	9.84	5.02	0.00	0.0%	47.4	265	252	11%	(0.17)	(0.15)	0.61	NM	NM	9.2	9.24	0.6	(2%)	(2%)	7%	7.5%	6.00
SP	NBD	Norbord[2,3]	Dec.31	7.07	9.91	6.36	0.40	5.7%	145.9	1,032	580	58%	(0.27)	(0.30)	0.30	NM	NM	23.3	2.97	2.4	(5%)	(6%)	6%	18.8%	7.00
SP	CTL	Catalyst Paper	Dec.31	1.60	4.31	1.19	0.00	0.0%	214.7	344	344	45%	(0.43)	(0.31)	(0.32)	NM	NM	NM	4.58	0.3	(11%)	(9%)	(10%)	(6.3%)	1.50
SU	TBC	Tembec[3]	Sep.30	0.53	3.15	0.32	0.00	0.0%	85.6	45	37	47%	(2.97)	(1.80)	(1.26)	NM	NM	NM	8.48	0.1	(99%)	(290%)	138%	(52.8%)	0.25
SP	WFT	West Fraser	Dec.31	31.77	45.45	26.51	0.56	1.8%	42.8	1,360	1,046	23%	(2.57)	(1.81)	1.67	NM	NM	19.0	52.31	0.6	(6%)	(4%)	4%	8.8%	34.00
		Group Average						**1.2%**				**32%**				**35.5**	**25.9**	**16.5**		**0.7**	**(19%)**	**(40%)**	**19%**	**(5.8%)**	
Income Trusts (C$)													**Distributable Cash**			**Yield**									
SP	ADN.UN	Acadian Timber IF	Dec.31	10.23	12.70	9.35			16.6	170		37%	$0.91	$0.84	-	8.9%	7.4%	-						16.4%	11.00
SO	CFX.UN	Canfor Pulp Income Fund	Dec.31	9.96	16.45	8.29			71.3	710		11%	$2.13	$1.70	$1.74	22.1%	20.1%	18.1%						52.6%	13.00
SP	PRT.UN	PRT Regeneration Fund	Dec.31	6.52	9.93	6.11			9.6	63		12%	$0.85	$0.55	-	14.3%	14.2%	-						21.6%	7.00
SP	SFK.UN	SFK Pulp Fund	Dec.31	1.86	5.88	1.78			90.5	168		18%	$0.34	$0.55	$0.46	18.3%	29.8%	24.9%						52.8%	2.50
SP	SXP.UN	Supremex Income Fund	Dec.31	5.96	9.98	5.00			31.3	187		26%	$1.13	$1.16	-	17.8%	19.6%	-						43.6%	7.50
SP	TWF.UN	TimberWest	Dec.31	13.95	19.65	12.50			77.7	1,084		48%	$0.52	$1.30	-	4.0%	9.2%	-						8.0%	14.50
		Group Average										**25.3%**				**14.2%**	**16.7%**	**21.5%**						**32.5%**	

[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.

[4] Mercer reports in euros and trades on NASDAQ. Data including price, market cap and float are in US$, all other figures are in euros.

Source: Company reports and CIBC World Markets Inc.

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Important Disclosure Footnotes for Companies Mentioned in this Report that Are Covered by CIBC World Markets:

Stock Prices as of 01/25/2008:

AbitibiBowater Inc. (2a, 2e, 2f, 2g, 9) (ABH-NYSE, US$19.55, Sector Performer)
Acadian Timber Income Fund (2g) (ADN.UN-TSX, C$10.00, Sector Performer)
Canfor Corporation (2g) (CFP-TSX, C$9.94, Sector Underperformer)
Canfor Pulp Income Fund (2g) (CFX.UN-TSX, C$10.59, Sector Outperformer)
Cascades Inc. (2a, 2e, 2g, 7) (CAS-TSX, C$7.48, Sector Outperformer)
Catalyst Paper Corporation (2g) (CTL-TSX, C$1.60, Sector Performer)
Domtar Inc. (2a, 2e, 2g) (UFS-NYSE, US$7.76, Sector Outperformer)
Fraser Papers (2g) (FPS-TSX, C$2.86, Sector Underperformer)
International Forest Products Limited (2g, 12) (IFP.A-TSX, C$5.37, Sector Performer)
International Paper Co. (2g) (IP-NYSE, US$31.49, Sector Outperformer)
Louisiana-Pacific Corp. (2g) (LPX-NYSE, US$14.25, Sector Outperformer)
Mercer International Inc. (1, 2g) (MERC-NASDAQ, US$7.37, Sector Outperformer)
Norbord Inc (2g, 7) (NBD-TSX, C$6.11, Sector Performer)
PRT Forest Regeneration Income Fund (2a, 2e, 2g, 7) (PRT.UN-TSX, C$6.50, Sector Performer)
SFK Pulp Fund (2a, 2c, 2e, 2g) (SFK.UN-TSX, C$1.85, Sector Performer)
Supremex Income Fund (2g) (SXP.UN-TSX, C$5.72, Sector Performer)
Tembec Inc. (2g) (TBC-TSX, C$0.47, Sector Underperformer)
TimberWest Forest Corp. (2g, 7) (TWF.UN-TSX, C$13.25, Sector Performer)
West Fraser Timber Co. Ltd. (2g) (WFT-TSX, C$30.99, Sector Performer)
Weyerhaeuser Co. (2a, 2e, 2g) (WY-NYSE, US$63.73, Sector Performer)

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

Stock Prices as of 01/25/2008:

Ainsworth (ANS-TSX, C$3.40, Not Rated)
Aracruz Celulose (ARA-NYSE, US$66.49, Not Rated)
Cathay Forest Products Corp. (CFZ-V, C$1.10, Not Rated)
MeadWestvaco Corp. (MWV-NYSE, US$27.02, Not Rated)
Pope & Talbot Inc. (PTBT-PN, US$0.04, Not Rated)
Potlatch Corp. (PCH-NYSE, US$40.11, Not Rated)
Sinar Mas Multiartha (SMMA-JK, [IDR]740.00, Not Rated)
Stora Enso (STERV-HE, €9.19, Not Rated)

Important disclosure footnotes that correspond to the footnotes in this table may be found in the "Key to Important Disclosure Footnotes" section of this report.

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CIBC World Markets Price Chart

For price and performance information charts required under NYSE and NASD rules, please visit CIBC on the web at http://www.cibcwm.com/research/sec2711 or write to CIBC World Markets Corp., 300 Madison Avenue, 7th Floor, New York, NY 10017-6204, Attn: Research Disclosure Chart Request.

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 25 Jan 2008)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	145	41.4%	Sector Outperformer (Buy)	115	79.3%
Sector Performer (Hold/Neutral)	176	50.3%	Sector Performer (Hold/Neutral)	139	79.0%
Sector Underperformer (Sell)	26	7.4%	Sector Underperformer (Sell)	17	65.4%
Restricted	2	0.6%	Restricted	1	50.0%

Ratings Distribution: Paper & Forest Products Coverage Universe

(as of 25 Jan 2008)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	6	30.0%	Sector Outperformer (Buy)	6	100.0%
Sector Performer (Hold/Neutral)	11	55.0%	Sector Performer (Hold/Neutral)	11	100.0%
Sector Underperformer (Sell)	3	15.0%	Sector Underperformer (Sell)	3	100.0%
Restricted	0	0.0%	Restricted	0	0.0%

Paper & Forest Products Sector includes the following tickers: ABH, ADN.UN, CAS, CFP, CFX.UN, CTL, FPS, IFP.A, IP, LPX, MERC, NBD, PRT.UN, SFK.UN, SXP.UN, TBC, TWF.UN, UFS, WFT, WY.

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