



May 11, 2007

Paper & Forest Products

Sector Weighting:  
**Underweight**

## Spotlight On The Paper & Wood Stocks

May 7, 2007 - May 11, 2007

### This Week's Highlight:

- **Globalization And Its Implications For The Indian Forest Sector:** India Generates The Highest ROCE In The Global Paper Industry

### Also Included In This Issue:

- **Canfor Corporation:** Weaker-than-expected Q1; Interim CEO Appointed
- **Cascades Inc.:** Lower Profitability In Q1 -- As Expected Due To High Cost Of Waste Paper
- **Mercer International Inc.:** Q1 Results Below Target Because Of Fiber Costs
- **Supremex Income Fund:** Announces Intention To Acquire A Small Canadian Competitor
- **Supremex Income Fund:** Weaker-than-expected Q1 Highlights Competitive Threat Of Stronger Canadian Dollar
- **North American Valuations**

### Reports Published:

*Globalization And Its Implications For The Indian Forest Sector: India Generates The Highest ROCE In The Global Paper Industry*

*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, or at the end of each section hereof, where applicable.**

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# Commodity Price Forecasts

## Exhibit 1. Commodity Price Summary (US\$)

|                     | Units   | 2000  | 2003  | 2004  | 2005  | 2006  | 2007E | 2008E | Normalized | Current Price | Comments |
|---------------------|---------|-------|-------|-------|-------|-------|-------|-------|------------|---------------|----------|
| NBSK Pulp (N.E.)    | m. ton  | \$680 | \$525 | \$617 | \$611 | \$681 | \$745 | \$700 | \$655      | \$775         | Rising   |
| Newsprint           | m. ton  | 565   | 503   | 547   | 610   | 668   | 625   | 615   | 635        | 620           | Falling  |
| Uncoated Freesheet  | sh. ton | 755   | 628   | 676   | 727   | 823   | 800   | 770   | 730        | 810           | Flat     |
| Light Weight Coated | sh. ton | 1,065 | 829   | 859   | 997   | 978   | 920   | 910   | 1,000      | 910           | Flat     |
| Linerboard          | sh. ton | 470   | 421   | 468   | 478   | 553   | 575   | 560   | 480        | 565           | Flat     |
| Lumber #2&Btr.      | Mbf     | 295   | 278   | 394   | 353   | 296   | 285   | 300   | 320        | 227           | Falling  |
| OSB                 | Msf     | 205   | 380   | 369   | 319   | 218   | 170   | 170   | 215        | 140           | Rising   |
| Canadian Dollar     | US\$    | 0.67  | 0.72  | 0.77  | 0.83  | 0.88  | 0.85  | 0.85  | 0.85       | 0.90          | Flat     |

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

# Globalization And Its Implications For The Indian Forest Sector

## India Generates The Highest ROCE In The Global Paper Industry

(May 10, 2007\*)

On April 27, we gave a presentation in New Delhi entitled "Globalization and Its Implications for the Indian Forest Sector." The presentation was made at a joint workshop sponsored by TIFAC and IIASA (International Institute for Applied Systems Analysis). TIFAC is the Government of India's think tank supporting the National Planning Commission. (A copy of the presentation is available upon request. We also plan to publish a more in-depth assessment of the Indian forest industry in the coming months.)

From an investor's perspective, the seven most salient messages are as follows:

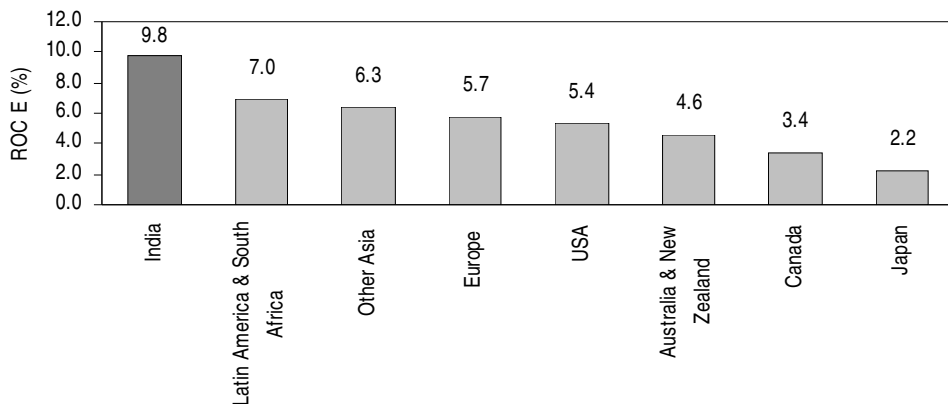
1. At the national level, India generates the highest return on capital employed (ROCE) in the global paper & forest products industry (see Exhibits 2 through 4). This is despite the fact that India faces the second-highest wood costs in the world (after Germany) and the second-highest energy costs (after Japan). Aside from the fact that the Indian industry is less capital intensive, we think key reasons for this result are that the Indian industry enjoys strong growth in domestic demand in addition to a degree of protection from foreign competition. This protection stems from poor transportation infrastructure, fragmented distribution channels, and a grade mix that varies from the international norm.
2. In the medium/long term, we expect a reversion in the Indian industry's ROCE to the global average. However, we still expect this higher-than-average return to persist over the next three to five years. Having said that, current paper prices in India are likely near a cyclical peak.
3. The major constraints on the future growth of the Indian forest products sector are relatively high energy costs and the lack of domestic fiber. One option is to simply import logs and/or market pulp. However, to the extent that security of supply is a concern, Indian processors must decide on a "buy" versus "build" strategy for securing fiber assets in the international market. In our view, given the relative costs, better financial returns could be secured through the acquisition of existing assets than the construction of new ones.
4. Ballarpur Industries (BILT-BO) is by far the largest of the Indian paper companies, although it is still small by international standards with a market cap of roughly US\$500 million. In addition to its greater size, Ballarpur is differentiated from most of its counterparts in India by the fact that it now has a substantial timberland base in Malaysia. In general, Ballarpur and the other paper stocks have not participated in the rapid run-up in share prices that has generally occurred in the Indian stock market.

\* Note: All sections dated and priced as of release of individual report.

5. We expect the strong growth in India's demand for paper & forest products to continue over at least the next 10 years. This should be in response to:
  - A continuation of the roughly 8% CAGR in real GDP;
  - A rise in India's per capita consumption of paper & paperboard, which is currently around 1/3 that of Indonesia, 1/6 that of China, and 1/45 that of the U.S.; and
  - A growth rate in India's working age population between now and 2015 that is roughly double that expected in China.
6. We think the market is at an inflection point regarding the global perception of the scarcity of wood. Given that India's wood deficit is expected to continue to grow, this is a negative for India. The change in perception is due to a combination of the following five factors:
  - Continuing growth in Indian and Chinese demand for forest products – Asia's fiber deficit will continue to expand;
  - Increase in Russia's log export tax;
  - Reduction in the supply of illegal logs;
  - Worse-than-expected insect infestation in British Columbia and Alberta; and
  - Rising bio-energy demand for wood fiber.
7. At the international level, we also think we will see an increasing convergence of the markets for fuel, food, and fiber (e.g., wood) and that the feedstocks for these three markets will increasingly trade on their "energy equivalency." The forces pushing this convergence are concerns with:
  - Environmental security (i.e., response to global warming);
  - National security (i.e., dependence on the Middle East and Russia for fossil fuels); and
  - Economic security (i.e., rising real price of oil).

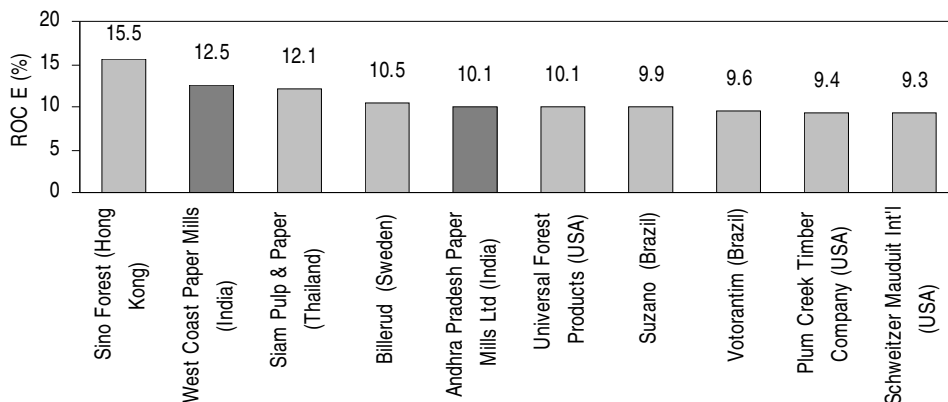
The forest sector is already supplying a range of low-tech and high-tech products to the emerging bio-fuels market, and we expect an acceleration of this response over the next three to five years. One implication of this is that the "opportunity cost" of using wood to make forest products is expected to rise, and thus the forest products industry may have increasing difficulty competing with these alternative uses. This is already a major concern in Europe, and will become a greater concern elsewhere.

**Exhibit 2. Return On Capital Employed (ROCE) By Region: Eight-year Average (1998–2005)**



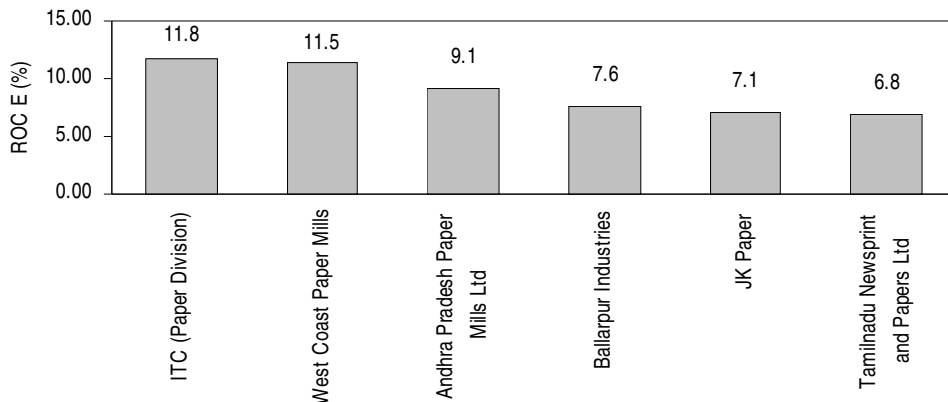
Source: PricewaterhouseCoopers, CIBC World Markets Inc.

**Exhibit 3. Top 10 Worldwide, ROCE: Eight-year Average (1998–2005)**



Source: PricewaterhouseCoopers, Company Reports, CIBC World Markets Inc.

**Exhibit 4. Indian Companies, ROCE: Four-year Average (2002–2005)**



Source: CIBC World Markets Inc.

In terms of product focus, Ballarpur, Tamil Nadu (TNNP-BO), and West Coast Paper (WCPM-BO) emphasize printing & writing papers in general, while Andhra Pradesh Paper (APPM-BO) and JK Paper (CPM-BO) emphasize uncoated free sheet paper, and the paper division of ITC (India Tobacco Company; ITC-BO) emphasizes packaging. The bulk of India's newsprint production is owned by government entities, and the solid wood companies are privately held. By international standards, we are generally impressed with the quality of the Indian management teams.

There is significant variation in the strength of the balance sheets among the Indian companies. For example, the debt/total capital ratios range from a low of 0.22 for West Coast Paper Mills to 0.36 for Tamil Nadu, to 0.41 for Ballarpur, and a high of 0.62 for JK Paper and 0.86 for Andhra Pradesh Paper. As a result, investors should emphasize the enterprise value/EBITDA metric for valuation purposes instead of the P/E or P/B ratio. Consensus estimates suggest most of the Indian paper companies are currently trading in the range of 4x-6x EV/EBITDA for 2007. This is in contrast to the 8x-9x range in the North American industry. Investors must make their own trade-off between trading liquidity, growth potential, and likelihood of a take-out in comparing the valuations in India and North America.

## Canfor Corporation

### Weaker-than-expected Q1; Interim CEO Appointed

(May 7, 2007)

Late on May 4, Canfor Corporation (CFP-SU) reported a loss before unusual items of \$0.35/share for Q1. This is below the loss of \$0.26/share we were expecting largely due to weaker-than-expected results in the lumber operations following log inventory write-downs and the Canadian National Railway (CN) (CNR-SO) strike.

This result is better than the loss of \$0.38/share reported in the previous quarter, but worse than the profit of \$0.15/share reported in the same quarter a year ago.

Canfor's results remained weak, but improved quarter over quarter due to slightly higher lumber prices and the weaker Canadian dollar. The company is benefiting less from stronger pulp prices due to its reduced stake in Canfor Pulp Income Fund (CFX.UN-SO).

In order to reflect Q1 results and lower capital spending expectations, we are decreasing our 2007 estimate from (\$0.41)/share to (\$0.49)/share and modestly increasing our 2008 forecast from \$0.00/share to \$0.03/share.

EBITDA in the first quarter was negative \$10.0 million, which is \$4.1 million better than the previous quarter.

Canfor continues to experience quality issues with the beetle wood that it processes. Logs are dryer on average, which results in lower recovery rates, lower productivity, and higher conversion costs at the sawmills. Although it is difficult to quantify, the declining quality of the company's wood basket represents a serious risk going forward.

Canfor incurred roughly 52,000 Mbfm of lumber downtime during the quarter. Results continue to be negatively impacted by the slow ramp-up and downtime being taken at the rebuilt Plateau mill, which is not expected to reach full capacity until the end of 2007. The company's New South mills ran well during Q1, generating positive EBITDA for the segment.

The panel operations posted slightly better results in Q1 relative to Q4/2006 and continued to operate on a reduced schedule. A total of 17 days of downtime were taken at the PolarBoard mill in Fort Nelson during the first quarter, while the new Peace Valley OSB joint-venture (JV) mill continues to ramp up slowly.

On the pulp side, Canfor took 8,500 tonnes of maintenance downtime in the first quarter. The Taylor BCTMP mill, which is not part of the Canfor Pulp Income Fund spin-out, experienced lower-than-normal production due to fiber quality and mechanical issues. Overall pulp shipments fell 6,000 tons below production levels in the quarter due to disruptions from the CN rail strike and congestion at the Port of Vancouver.

Canfor spent \$18 million on capital expenditures during the first quarter. Looking out over the remainder of 2007, the company expects spending at the lower end of a budget of \$125 million–\$150 million. Of this amount, Canfor plans to spend roughly 40% on maintenance, 45% on improvements, and 15% on strategic projects. The overall capex program is still lower than the company's original plans that called for significantly more spending over several years and demonstrates a more conservative approach with respect to upgrading Canfor's B.C. asset base.

The company's balance sheet remains healthy, and currently carries a cash position of \$508 million, resulting in a net-debt-to-capital ratio of 6%. This is slightly higher than the pro forma net-debt-to-capital ratio of 3% last quarter.

After market close on May 4, Canfor's Board of Directors appointed James Shepard as interim CEO of the company to oversee operations as the board searches for a permanent head for the company. Mr. Shepard was previously CEO and Chairman of Finning International.

The company also announced the termination of the shareholder rights plan, which was widely expected.

#### Exhibit 5. Income Statement (\$ mlns., except EPS)

|   | 2006      | 2007E     | 2008E     |
|---|-----------|-----------|-----------|
| Sales   | \$3,732.5 | \$3,609.8 | \$3,759.6 |
| Cost Of Sales   | \$3,622.3 | \$3,404.8 | \$3,507.0 |
| EBITDA  | \$110.2   | \$205.0   | \$252.5   |
| Depreciation  | \$182.6   | \$191.2   | \$188.8   |
| Operating Profit                                      | (\$72.4)  | \$13.8    | \$63.8    |
| Other Expenses (Gains)                                | \$0.2     | \$0.2     | \$0.1     |
| Financial Expenses                                    | \$41.5    | \$6.4     | (\$45.0)  |
| Earnings Before Income Taxes                          | (\$114.1) | \$7.2     | \$108.7   |
| Income Taxes  | \$169.4   | \$2.6     | \$38.1    |
| Net Earnings  | (\$283.5) | \$4.6     | \$70.6    |
| Net Earnings Per Share (Fully Diluted)                | \$3.34    | (\$0.56)  | \$0.03    |
| Net Earnings Per Share (Fully Diluted) Before Unusual | (\$0.69)  | (\$0.49)  | \$0.03    |

Source: Company reports and CIBC World Markets Inc.

## Price Target Calculation

Our 12- to 18-month price target of \$8.00 is based on our 2007 forecast total enterprise value (TEV) of \$1,640 million, which is roughly 6.0x our 12-month forward EBITDA estimate of \$273 million. To isolate our market cap target, we add to the TEV expected free cash flow of \$246 million over the next 12 months (including \$166 million of working capital reductions following the normal seasonal winter build-up) and deduct \$637 million to reflect the target value of the minority interest represented by the 49.8% minority ownership in Canfor Pulp and deduct the current net debt of \$137 million. This results in a target market capitalization of \$1,110 million or approximately \$8.00/share. Our target multiple is 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 weaker-than-expected economic growth in the U.S. and Canada, which would negatively impact pulp and wood product prices. Continued strength in the Canadian dollar exchange rate, relative to the U.S. dollar, would also have a negative impact on earnings.

## Cascades Inc.

### Lower Profitability In Q1 – As Expected Due To High Cost Of Waste Paper

(May 10, 2007)

On May 10, Cascades (CAS-SP) reported a Q1 profit before unusual items of \$0.05/share. This profit is basically in line with our estimate of \$0.07/share.

The result is lower than the profit of \$0.16/share reported in the previous quarter, but in line with the profit of \$0.07/share reported in the same quarter a year ago.

Results are down from the previous quarter because the lower Canadian dollar and some price increases in the tissue and boxboard segments were more than offset by a substantial increase in wastepaper prices. The surge in wastepaper prices impacted earnings by approximately \$0.21/share year over year.

In light of these results, we are fine-tuning our 2007 EPS estimate from \$0.65 to \$0.64 and our 2008 EPS estimate from \$0.75 to \$0.76. Our price target is adjusted from \$12.00 to \$13.00.

Old corrugated container (OCC) prices increased by 54% to a quarterly average of US\$108/ton; old newspaper prices (ONP) increased by 48% to an average of US\$108/ton; and the price of sorted office paper (SOP) was up 13% to an average of US\$137/ton. During the quarter, OCC prices reached their highest level since 1995. The spike in wastepaper prices is due largely to strong demand from new mills in China and weak wastepaper generation in the winter. Wastepaper prices moderated in April, but remain very high. Current unit wastepaper prices are US\$118/ton for OCC, US\$122/ton for ONP and US\$158/ton for SOP.

Overall EBITDA, before unusual items, was up to \$84 million from \$81 million in the previous quarter. The following factors were responsible for this change: higher raw material costs (-\$15 million), lower shipments (-\$3 million), higher energy prices (-\$6 million) and other items (-\$2 million) more than offset by the Norampac acquisition (+\$22 million), higher selling prices (+\$5 million), and favorable FX movements (+\$2 million).

Boxboard shipments were lower primarily as a result of a production stoppage following the failure of a boiler at the Toronto mill. This failure impacted earnings by \$8 million in the quarter.

Over the last two years, Cascades has actively addressed several underperforming units. It has divested its non-core distribution assets in the Fine Papers and Tissue segments, and rationalized operations at a number of its underperforming units. The company has focused particular attention on its recycled boxboard segment.

Free cash flow before working capital changes was \$4 million in the quarter, compared to breakeven in the previous quarter.

Cascades expects that the seasonal pick-up in activity in most business segments and selling price improvements should benefit Q2. However, business conditions will remain challenging given high fiber costs, the recent increase in the Canadian dollar and energy prices, and the slower economic growth in the U.S.

In North America, a US\$30 increase for coated recycled boxboard and another US\$45 increase in April were implemented. In Europe, price increases amounting to €60 were announced for shipments of virgin grades starting mid-May and of €50 for recycled grades starting July 1. The increases on both continents reflect more favorable market conditions as well as fiber cost increases.

Because of rising wastepaper prices, Cascades announced an increase of US\$40/ton on containerboard effective May 28, 2007. This increase replaces an unsuccessful increase of US\$40/ton that had been scheduled for January 1.

In the tissue group, the company announced additional price increases in the away-from-home segment in Canada (+10%) and the U.S. (+8%) for May and June. Cascades also announced a \$50 price increase on jumbo rolls starting May 1. The implementation of these increases should occur gradually over the course of the next few quarters.

If successful, these price increases could more than offset the negative effects of rising wastepaper prices. We assume that these increases will be only partially successful and that earnings will be flat in 2007. However, there is also some downside risk to our forecasts, as we assume that the Canadian dollar will average US\$0.85 in 2007 and 2008.

## Price Target Calculation

Our 12- to 18-month price target of \$13.00 on Cascades is based on our 2007 forecast total enterprise value (TEV) of \$2,675 million, which is 6.25x our blended EBITDA estimate (75% of our 2007 estimate of \$428 million and 25% of our 2008 estimate of \$427 million). To isolate our market cap target, we add to the TEV expected free cash flow of \$127 million over the next 12 months and the \$179-million market value of the 43% interest in Boralex (BLX.A-TSX) and deduct the current net debt of \$1,674 million. This results in a target market capitalization of \$1,307 million or approximately \$13.00/share. 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, higher wastepaper prices and the volatility in the Canadian/U.S. exchange rate.

## Mercer International Inc.

### Q1 Results Below Target Because Of Fiber Costs

(May 8, 2007)

Late on May 7, Mercer International (MERC-SO) reported a profit of €0.03/share for Q1. Despite a large gain on derivatives, this profit is lower than our estimate of €0.13/share because of higher-than-expected fiber costs.

This result is lower than the profit of €0.66/share reported for the previous quarter and the profit of €0.41/share reported for the same quarter last year.

Operating results were down from the previous quarter, as the stronger euro and higher fiber costs more than offset the benefits of higher pulp prices. EBITDA declined from €37 million to €28 million.

In light of these results, we are reducing our 2007 EPS estimate from €0.26 to €0.21 and our 2008 EPS estimate from €0.18 to €0.17. Accordingly, we are fine-tuning our price target from US\$16.00 to US\$15.00.

With a warm and short winter in Northern Europe, which constrained harvesting operations, and ongoing competition for wood from the bio-energy sector, we expect that fiber prices in Europe will remain high for the balance of the year. It is estimated that chip prices in Germany increased from €105/tonne in Q4 to €127/tonne in Q1. The company's fiber costs were up 20% quarter over quarter and 50% year over year. However, thanks to storms that damaged substantial volumes of timber in early January, fiber availability has improved and fiber prices started to fall in April. During the same period, we estimate that fiber costs at the Celgar mill increased from US\$80/tonne to US\$82/tonne primarily because of fluctuations in regional woodchip availability resulting from sawmill downtime in Western Canada and the Western U.S. We assume that chip prices in BC will continue to increase during the balance of the year, albeit at a slower pace.

During the first quarter, market pulp prices increased from an average of US\$728/tonne to an average of US\$758/tonne. This was due in large part to strong global demand, falling inventories and increasing fiber costs in Europe and Western Canada. Pulp prices currently stand at US\$775/tonne. We expect that pulp prices will weaken somewhat during the second half of 2007, but Mercer does not expect pulp prices to come down because of the ongoing pressure on fiber costs and the lower U.S. dollar.

There was no maintenance downtime in the first quarter, but the second quarter will be impacted by 24,000 tonnes of maintenance- and capex-related downtime, which will increase manufacturing costs in Q2. Less downtime, combined with lower fiber costs in Europe and the benefits from the improvement made at the Celgar mill, should result in lower costs in the second half of the year. The Celgar optimization project, which includes an improvement of the bleaching operations, increased drying capacity and more regular maintenance, will be completed in Q2/2007 on budget.

In 2006, the Russian government increased the export tax on softwood logs to 6.5%; the tax is supposed to increase to 20% this year, 25% in 2008 and 80% in 2009. Given that Russia presently exports large volumes of logs to Europe, we think that these taxes would put further pressure on wood fiber prices in Europe. Mercer could be negatively impacted, as two-thirds of its pulp capacity is in Europe. However, Mercer's mills would benefit from the resulting upward pressure on pulp prices.

Because of lower-than-expected emissions in Europe, the value of carbon emission certificates remained depressed in the quarter at roughly €1/tonne, compared to roughly €20/tonne a year ago. Mercer is a net seller of emission certificates.

## Price Target Calculation

Our 12- to 18-month price target of US\$15.00 is based on our 2007 forecast total enterprise value (TEV) of €1,139 million, which is 8.5x our EBITDA estimates (75% of 2007E and 25% of 2008E). To isolate our market-cap target, we add to the TEV expected free cash flow of €42 million over the next 12 months and deduct the current net debt of €794 million and the minority interest of €34 million. This results in a target market capitalization of €353 million, or approximately €11/share or \$15.00/share. Our target multiple is at a premium to the average in our universe due to the company'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 continuing increase in fiber prices.

**Exhibit 6. Income Statement (€ mlns., except per share)**

|  | 2005    | 2006  | 2007E  | 2008E  |
|--|---------|-------|--------|--------|
| Net Sales                                | 513.9   | 661.4 | 680.3  | 634.5  |
| EBITDA                                   | 66.7    | 127.0 | 137.7  | 123.1  |
| Depreciation, Depletion And Amortization | 52.0    | 56.4  | 56.7   | 56.7   |
| EBIT                                     | 14.7    | 70.6  | 81.0   | 66.4   |
| Net Interest Income (Expense)            | (160.4) | 51.1  | (81.5) | (67.5) |
| Other Income (Expense)                   | 0.0     | 0.0   | 0.0    | 1.0    |
| Earnings Before Income Taxes             | (145.7) | 121.7 | (0.4)  | (0.2)  |
| Income Taxes Expense (Recovery)          | (10.8)  | 57.4  | 2.3    | 6.0    |
| Minority Interest                        | 17.7    | (1.1) | 8.5    | 10.1   |
| Net Earnings (Net Loss)                  | (117.1) | 63.2  | 5.7    | 3.9    |
| EPS Before Unusuals                      | ( 3.75) | 1.71  | 0.21   | 0.17   |

Source: Company reports and CIBC World Markets Inc.

## Supremex Income Fund

### Announces Intention To Acquire A Small Canadian Competitor

(May 9, 2007)

On May 8, Supremex Income Fund (SXP.UN-SP) announced that it signed a letter of intent to purchase substantially all of the assets of a smaller Canadian competitor. It is expected to increase revenue by \$15 million-\$25 million, or between 8%-12%. We think it should be immediately accretive to earnings, if successfully completed.

The transaction is expected to be financed with \$25 million available for acquisitions under Supremex's \$40 million revolving line of credit. As of Q4/2006, nothing was drawn on the facility, providing the fund with a relatively conservative net debt/capital ratio of 19%.

We expect Supremex to acquire operations in markets where it has existing operations in order to maximize synergies. Although not disclosed, likely candidates are Royal Envelope with manufacturing facilities in Toronto or Premier Envelope located in Western Canada.

The transaction is subject to normal closing conditions, including the completion of satisfactory due diligence, regulatory and Competition Bureau approval and the negotiation and execution of a definitive asset purchase agreement.

Despite the fact that Supremex currently controls 55% of the Canadian market share, we think the company will continue to consolidate the domestic market. Although further transactions will be subject to increasing levels of Competition Bureau oversight, we think other Canadian competitors remain feasible take-over candidates from an anti-combines perspective.

By dominating local markets, Supremex expects to be able to leverage both pricing and operating efficiencies, including plant and equipment consolidation, waste minimization and paper recycling revenues. We expect the company will be able to improve operating profit margins by up to 500 basis points. Based on an acquisition with sales of \$25 million, this amounts to over \$1 million in cost savings.

The company's most recent acquisition was Buffalo Envelope, acquired from Cenvo (CVO-NYSE) during the IPO process for \$0.4 million. Previous to this, Supremex acquired CML Industries for a total purchase price of \$31 million in July 2000. At the time, CML operated four plants and had revenues of \$45 million and EBITDA of \$4 million. We estimate that Supremex acquired CML for a multiple of 7.5x EBITDA (excluding the estimated \$4.5 million in synergies) and 3.5x when the synergies are included.

Supremex's net debt/capital ratio would increase to 30% if the revolver is fully used (\$25 million for acquisitions and \$15 million for other corporate purposes, etc.). The facility carries an interest rate of 6%, it matures on March 31, 2010, and no principle payments are required prior to maturity.

Management's objective is to finance acquisitions using excess cash flow from operations in combination with its revolver. As a result, we continue to expect the current distribution level to remain flat for the remainder of 2007 and 2008. Specifically, following the completion of this transaction, we do not expect cash distributions to increase, even if profits improve, until the fund has repaid a significant portion of the outstanding revolver.

We expect Supremex to report another strong quarter tomorrow after market close. We are looking for DCFPU of \$0.34 in the first quarter, similar to the level generated during the previous quarter. There was no comparable period last year, as the trust was not public at that time.

## Price Target Calculation

Our 12- to 18-month price target of \$8.50 for Supremex is based on our 2007 forecasted total enterprise value (TEV) of \$344 million, which is equal to roughly 6.50x our blended EBITDA estimate (75% of 2007E EBITDA of \$47.5 million and 25% of 2008E EBITDA of 48.0 million) plus \$35 million reflecting the present value of future tax benefits. To isolate our market cap target, we subtract expected net debt of \$77 million from the TEV. This results in a target market capitalization of \$267 million or approximately \$8.50/unit.

## Key Risks To Price Target

Potential risks to our price target include a weaker-than-expected U.S. economy, a shifting Canadian/U.S. exchange rate, substitution away from envelope products to electronic media, reduction in the demand or use of the postal service, potential loss of existing customers, higher costs of paper and other raw materials, and increasing competition from U.S.-based printers.

## Supremex Income Fund

### Weaker-than-expected Q1 Highlights Competitive Threat Of Stronger Canadian Dollar

(May 11, 2007)

Late on May 9, Supremex Income Fund reported distributable cash flow of \$0.29/unit for its Q1. This result was lower than our estimate for \$0.34/unit mainly due to lower sales volumes and higher spending on maintenance capital.

The result is lower than the \$0.34/unit in Q4/06. There was no comparable period last year, as the trust was not public for the full period. With the seasonality of Supremex's earnings, a year-over-year comparison is more relevant than a sequential one. EBITDA fell by \$0.6 million to \$11.3 million versus Q1/2006.

Supremex's recently announced acquisition is not expected to close before mid-August, if successful. While we don't anticipate that authorities will block the deal, we are waiting for more details before incorporating the transaction into our forecast.

Given the weaker-than-expected Q1 results and increasing competition from U.S. suppliers, we are decreasing our 2007 DCFPU estimate from \$1.29 to \$1.24 and our 2008 DCFPU estimate from \$1.29 to \$1.28. We maintain our Sector Performer rating.

### Q1 Overview

EBITDA declined by \$0.6 million to \$11.3 million versus Q1/2006. Lower volumes in both Canada and the U.S. were the main culprits impacting operating results. In particular, the absence of a major Government of Canada contract (a feature in Q1/2006) to supply envelopes for the census of Canada, along with increased competition from U.S. suppliers, particularly in the Canadian market, were responsible for lower unit volumes. We also believe that a one-cent postal rate increase in Canada, which took effect on January 15, may have caused some weakness in the quarter. Additionally, SG&A costs were negatively impacted by \$150,000 in one-time costs relating to Supremex's attempt to repurchase Cenveo's 29% ownership of the fund.

Q1 distributable cash flow of \$0.29/unit was lower than our estimate of \$0.34/unit due to the factors above and because of slightly higher spending on maintenance capital. During Q1 Supremex spent \$1.1 million on maintenance-related capital costs. Although capex spending tends to be somewhat lumpy during the year, the fund is still expected to stay within its targeted spending level of \$3 million for 2007. Note that we deduct pension contributions in excess of expense from our distributable cash calculation.

The upcoming quarters are generally seasonally weaker for the fund, as the spring and summer tend to be the slowest demand periods for envelope-related products.

**Exhibit 7. Supremex Summary Financials (\$ 000, except per unit)**

|                 | Mar-06        | Mar-07        | Jun-07        | Sep-07        | Dec-07        | 2006          | 2007E         | 2008E         |
|-----------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| <b>Sales</b>    |               |               |               |               |               |               |               |               |
| Canada          | \$43,200      | \$40,900      | \$40,246      | \$40,364      | \$41,953      | \$166,900     | \$163,462     | \$164,389     |
| U.S.            | 6,300         | 6,800         | 7,087         | 7,500         | 7,374         | 29,300        | 28,761        | 28,830        |
| Total           | 49,500        | 47,700        | 47,332        | 47,863        | 49,327        | 196,200       | 192,223       | 193,219       |
| <b>EBITDA</b>   | <b>11,905</b> | <b>11,294</b> | <b>11,055</b> | <b>11,839</b> | <b>11,916</b> | <b>48,386</b> | <b>46,083</b> | <b>47,631</b> |
| <i>% Margin</i> | <i>24.1%</i>  | <i>23.7%</i>  | <i>23.4%</i>  | <i>24.7%</i>  | <i>24.2%</i>  | <i>24.7%</i>  | <i>24.0%</i>  | <i>24.7%</i>  |
| DCFPU           |               | \$0.29        | \$0.30        | \$0.32        | \$0.33        | \$0.99        | \$1.24        | \$1.28        |
| CDPU            |               | \$0.2874      | \$0.2874      | \$0.2874      | \$0.2874      | \$0.86        | \$1.15        | \$1.15        |
| Payout Ratio    |               | 99.1%         | 95.8%         | 89.8%         | 87.1%         | 87.1%         | 92.7%         | 89.8%         |

Source: Company reports and CIBC World Markets Inc.

Based on our 2007 and 2008 EBITDA expectations, we maintain our current price target of \$8.50. Although we believe the recently announced acquisition could add up to \$0.10/unit to distributable cash flow, on an annual basis (depending on the size, profitability and price paid), we are waiting for more details before incorporating the transaction into our forecast.

## Impact Of A Higher Canadian Dollar

Supremex is exposed to fluctuations in the US\$/C\$ exchange rate through the receipt of U.S.-dollar-denominated revenues and the purchase of raw materials linked to U.S.-dollar-denominated prices. Overall, we think company is generally well insulated from short-term fluctuations.

However, unit sales volumes that were lost during the quarter due to increased U.S. competition are a serious problem and will likely worsen if the dollar remains above US\$0.90. A higher Canadian dollar lowers the relative cost position of U.S.-based suppliers, like National Envelope, Cenveo and Meadwestvaco (MWV-NYSE), allowing them to operate more profitably in Canada. This tends to put downward pressure on Canadian prices.

Although large U.S. players don't manufacture in Canada, they do have distribution capabilities and they generally target the envelope resale market, which represents 20% of Supremex's revenues or \$40 million annually.

## Upcoming Acquisition

On May 8, Supremex announced that it signed a letter of intent to purchase substantially all of the assets of a smaller Canadian competitor. The deal is expected to increase Supremex's revenues by \$15 million-\$25 million or between 8% and 12%. We think it should be immediately accretive to earnings, if successfully completed. Management expects the transaction to take at least three months to close.

The transaction is expected to be financed with \$25 million available for acquisitions under Supremex's \$40 million revolving line of credit. As of Q1/07, nothing was drawn on the facility, providing the fund with a relatively conservative net debt/capital ratio of 20%.

Supremex's net debt/capital ratio would increase to roughly 30% if the revolver was fully used (\$25 million for acquisitions and \$15 million for other corporate purposes, etc.). The facility carries an interest rate of 6% and no principle payments are required prior to maturity.

Management indicated that its lenders would be willing to increase the company's borrowing capacity if other opportunities present themselves. Supremex is comfortable with a level of debt equivalent to 3x EBITDA, or roughly \$25 million of incremental financing. The company continues to seek out acquisitions in both Canada and the U.S.

Management's objective is to finance acquisitions using excess cash flow from operations in combination with its credit facilities. As a result, we do not expect cash distributions to increase, even if profits improve, until the fund has repaid a significant portion of the outstanding revolver.

## Canada Post Mail Volumes Improve In 2006

At the industry level, recent data by Canada Post shows that envelope-related direct advertising mail volumes in Canada grew by 5% in 2006. Looking more broadly, overall mail volumes in Canada increased from 11.1 billion units to 11.6 billion units last year, a 3.7% increase. This is a significant move, as mail volumes are now approaching their previous peak, in 1996, of 11.8 billion units. At that time, total envelope-related mail volumes represented only 53% of the Canadian market, compared to 60% today.

We continue to believe that advertising-related envelope volumes in Canada should benefit over time from increased levels of direct mail spending. A catalyst for this change is legislation limiting the outbound calling ability of the telemarketing industry.

## Price Target Calculation

Our 12- to 18-month price target of \$8.50 for Supremex is based on our 2007 forecast total enterprise value (TEV) of \$301 million, which is equal to roughly 6.50x our blended EBITDA estimate (75% of 2007E EBITDA of \$46 million and 25% of 2008E EBITDA of \$48 million) plus \$32 million reflecting the present value of future tax benefits. To isolate our market cap target, we subtract expected net debt of \$66 million from the TEV. This results in a target market capitalization of \$267 million or approximately \$8.50/unit.

## Key Risks To Price Target

Potential risks to our price target include a weaker-than-expected U.S. economy, a shifting Canadian/U.S. exchange rate, substitution away from envelope products to electronic media, reduction in the demand or use of the postal service, potential loss of existing customers, higher costs of paper and other raw materials, and increasing competition from U.S.-based printers.

**Exhibit 8. Income Statement (\$ 000, except per unit)**

|  | F2006      | F2007E     | F2008E     | F2009E     | F2010E     |
|--|------------|------------|------------|------------|------------|
| Net Sales                                      | \$147,222  | \$192,232  | \$193,219  | \$194,221  | \$196,055  |
| Operating Costs                                | 110,528    | 146,150    | 145,588    | 145,498    | 147,280    |
| EBITDA   | 36,694     | 46,083     | 47,631     | 48,723     | 48,775     |
| <i>% Margin</i>                                | 25%        | 24%        | 25%        | 25%        | 25%        |
| DD&A   | 6,908      | 9,375      | 9,528      | 9,556      | 9,559      |
| Other Items                                    | 4,269      | 9          | -          | -          | -          |
| EBIT   | 25,517     | 36,699     | 38,102     | 39,168     | 39,216     |
| <i>% Margin</i>                                | 17%        | 19%        | 20%        | 20%        | 20%        |
| Interest On Long-term Debt                     | 3,156      | 4,091      | 4,361      | 4,361      | 4,361      |
| Other Items                                    | 6,252      | 5,046      | 5,684      | 5,529      | (417)      |
| EBT  | 16,109     | 27,563     | 28,057     | 29,277     | 35,271     |
| <i>% Margin</i>                                | 11%        | 14%        | 15%        | 15%        | 18%        |
| Income Tax                                     | (3,205)    | (87)       | 102        | -          | -          |
| Non-controlling Interest                       | -          | -          | -          | -          | -          |
| Net Income From Continuing Operations          | 19,314     | 27,650     | 27,955     | 29,277     | 35,271     |
| <i>% Margin</i>                                | 13%        | 14%        | 14%        | 15%        | 18%        |
| Other Items                                    | -          | -          | -          | -          | -          |
| Net Income                                     | 19,314     | 27,650     | 27,955     | 29,277     | 35,271     |
| <i>% Margin</i>                                | 13%        | 14%        | 14%        | 15%        | 18%        |
| FD EPU – GAAP                                  | \$0.62     | \$0.88     | \$0.89     | \$0.94     | \$1.13     |
| Average Number FD Units                        | 31,311,667 | 31,311,667 | 31,311,667 | 31,311,667 | 31,311,667 |
| <b>Cash Distributions</b>                      |            |            |            |            |            |
| Adjusted EBITDA                                | 36,694     | 46,083     | 47,631     | 48,723     | 48,775     |
| Net Interest Expense                           | 2,958      | 3,684      | 4,005      | 3,851      | 3,670      |
| Maintenance Capex                              | 1,968      | 3,054      | 3,000      | 3,000      | 3,000      |
| Taxes & Other Adjustments                      | 765        | 504        | 513        | 397        | 426        |
| Cash Flow Available For Distributions          | 31,002     | 38,841     | 40,112     | 41,476     | 41,678     |
| DCFP (Distributable Cash Flow Per Unit)        | \$0.99     | \$1.24     | \$1.28     | \$1.32     | \$1.33     |
| Cash Distribution (CD) – Declared (For Period) | 26,997     | 35,996     | 35,996     | 35,996     | 35,996     |
| CDPU (Cash distributions Per Unit)             | \$0.86     | \$1.15     | \$1.15     | \$1.15     | \$1.15     |
| Cash-on-cash Yield (Annualized)                | 11.9%      | 11.9%      | 11.9%      | 11.9%      | 11.9%      |
| Payout Ratio                                   | 87%        | 93%        | 90%        | 87%        | 86%        |

Source: Company reports and CIBC World Markets Inc.

# North American Valuations

(May 11, 2007)

## Exhibit 9. North American Companies' P/E And TEV/EBITDA Valuation

|                            | Mkt. Cap.<br>(\$ mlns.) | Float<br>(\$ mlns.) | Price<br>5/11/07 | P/E  |       |       | TEV/EBITDA |        |       |            | EBITDA (\$ mlns.) |       |       |            | Price/<br>Tangible BV |
|----------------------------|-------------------------|---------------------|------------------|------|-------|-------|------------|--------|-------|------------|-------------------|-------|-------|------------|-----------------------|
|                            |                         |                     |                  | 2006 | 2007E | 2008E | 2006       | 2007E  | 2008E | Normalized | 2006              | 2007E | 2008E | Normalized |                       |
| <b>U.S. (US\$)</b>         |                         |                     |                  |      |       |       |            |        |       |            |                   |       |       |            |                       |
| Bowater                    | \$1,235                 | \$1,183             | \$21.51          | -    | -     | -     | -          | -      | -     | -          | -                 | -     | -     | -          | 5.09                  |
| Domtar                     | 4,796                   | 4,458               | 9.33             | n.m. | 29.2  | 26.7  | 18.5       | 8.3    | 8.0   | 9.0        | \$393             | \$878 | \$910 | \$806      | 1.53                  |
| International Paper        | 16,559                  | 16,488              | 38.51            | 26.9 | 17.2  | 22.1  | 8.7        | 7.6    | 8.9   | 10.1       | 2,455             | 2,795 | 2,397 | 2,116      | 3.81                  |
| Louisiana-Pacific          | 2,046                   | 2,030               | 19.65            | 16.5 | n.m.  | n.m.  | 11.7       | (81.5) | 61.1  | 8.8        | 230               | -33   | 44    | 307        | 1.17                  |
| Mercer International*      | 368                     | 368                 | 10.93            | 5.0  | n.m.  | n.m.  | 9.7        | 8.1    | 9.1   | 11.6       | 115               | 138   | 123   | 96         | 1.68                  |
| Weyerhaeuser               | 17,594                  | 16,905              | 80.81            | 21.9 | 33.0  | 28.4  | 7.9        | 10.8   | 10.5  | 10.0       | 3,119             | 2,272 | 2,336 | 2,463      | 3.10                  |
| Average                    | 7,100                   | 6,905               |                  | 17.6 | 26.4  | 25.7  | 11.3       | -9.3   | 19.5  | 9.9        |                   |       |       |            | 2.73                  |
| <b>Canada (C\$)</b>        |                         |                     |                  |      |       |       |            |        |       |            |                   |       |       |            |                       |
| Abitibi-Consolidated       | 1,219                   | 1,095               | 2.77             | -    | -     | -     | -          | -      | -     | -          | -                 | -     | -     | -          | 1.06                  |
| Canfor                     | 1,732                   | 1,057               | 12.15            | n.m. | n.m.  | n.m.  | 22.8       | 12.2   | 9.9   | 4.6        | 110               | 205   | 253   | 551        | 0.83                  |
| Cascades                   | 1,191                   | 833                 | 11.97            | 18.7 | 18.7  | 15.8  | 9.1        | 6.7    | 6.8   | 6.6        | 316               | 428   | 427   | 439        | 1.47                  |
| Fraser Papers* (US\$)      | 183                     | 99                  | 6.19             | n.m. | n.m.  | n.m.  | (23.6)     | 9.4    | 9.0   | 10.5       | -8                | 20    | 21    | 18         | 0.50                  |
| Interfor                   | 431                     | 410                 | 9.00             | 34.6 | 25.0  | 19.6  | 5.5        | 5.1    | 4.6   | 4.0        | 66                | 72    | 79    | 91         | 0.93                  |
| Norbord* (US\$)            | 1,251                   | 698                 | 8.66             | 11.6 | n.m.  | n.m.  | 6.9        | 15.3   | 15.3  | 6.5        | 240               | 108   | 108   | 253        | 2.59                  |
| Catalyst Paper             | 734                     | 734                 | 3.42             | n.m. | n.m.  | n.m.  | 7.2        | 7.2    | 7.2   | 6.4        | 217               | 214   | 214   | 242        | 0.75                  |
| Tembec                     | 94                      | 76                  | 1.10             | n.m. | n.m.  | n.m.  | 16.4       | 9.8    | 16.9  | 13.5       | 73                | 122   | 71    | 89         | 0.13                  |
| West Fraser                | 1,718                   | 1,322               | 40.16            | n.m. | n.m.  | 22.9  | 7.2        | 6.6    | 5.9   | 4.7        | 332               | 362   | 401   | 503        | 0.87                  |
| Average                    | 950                     | 703                 |                  | 21.7 | 21.9  | 19.4  | 6.4        | 9.1    | 9.5   | 7.1        |                   |       |       |            | 1.01                  |
| <b>Income Trusts (C\$)</b> |                         |                     |                  |      |       |       |            |        |       |            |                   |       |       |            |                       |
| Acadian Timber Income Fund | 201                     | 201                 | 12.10            |      |       |       | 14.9       | 22.7   | 14.3  | 14.3       | 18                | 12    | 19    | 19         |                       |
| Canfor Pulp Income Fund    | 1,102                   | 209                 | 15.46            |      |       |       | 6.7        | 5.3    | 6.2   | 6.3        | 180               | 225   | 195   | 190        |                       |
| PRT Regeneration Fund      | 88                      | 87                  | 9.15             |      |       |       | -          | -      | -     | -          | -                 | -     | -     | -          |                       |
| SFK Pulp Fund              | 460                     | 459                 | 5.08             |      |       |       | 13.1       | 5.6    | 6.0   | 8.4        | 47                | 111   | 102   | 73         |                       |
| Supremex Income Fund       | 301                     | 301                 | 9.60             |      |       |       | 10.1       | 7.8    | 7.7   | 7.7        | 37                | 47    | 48    | 48         |                       |
| TimberWest                 | 1,397                   | 1,397               | 18.00            |      |       |       | 15.8       | 15.5   | 15.8  | 16.0       | 100               | 102   | 100   | 99         |                       |
| Average                    | 669                     | 491                 |                  |      |       |       | 11.4       | 8.6    | 8.9   |            |                   |       |       |            |                       |

\*Fraser Papers and Norbord report in U.S. dollars 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: CIBC World Markets Equity Research.

## Exhibit 10. Summary Spreadsheet

| Stock Rec.                 | Symbol | Company                           | Fiscal Year | Price 5/11/07 | 52-week |         | Ind. Div. | Yield | Shares O/S (mlns.) | Mkt. Cap. (\$ mlns.) | Float (\$ mlns.) | Net Debt/Capital | Fiscal Year EPS |        |        | P/E Multiples |       |       | ROE     |     |       | Total Implied Return <sup>1</sup> | 12-mo. Price Target |         |        |
|----------------------------|--------|-----------------------------------|-------------|---------------|---------|---------|-----------|-------|--------------------|----------------------|------------------|------------------|-----------------|--------|--------|---------------|-------|-------|---------|-----|-------|-----------------------------------|---------------------|---------|--------|
|                            |        |                                   |             |               | High    | Low     |           |       |                    |                      |                  |                  | 2006            | 2007E  | 2008E  | 2006          | 2007E | 2008E | BVPS    | P/B | 2006  |                                   |                     | 2007E   | 2008E  |
| <b>U.S. (US\$)</b>         |        |                                   |             |               |         |         |           |       |                    |                      |                  |                  |                 |        |        |               |       |       |         |     |       |                                   |                     |         |        |
| R                          | BOW    | Bowater                           | Dec.31      | \$21.51       | \$29.10 | \$19.61 | \$0.80    | 3.7%  | 57.4               | \$1,235              | \$1,183          | 71%              | -               | -      | -      | -             | -     | -     | \$14.50 | 1.5 | -     | -                                 | -                   | -       | -      |
| SP                         | UFS    | Domtar                            | Dec.31      | 9.33          | 10.19   | 5.56    | 0.00      | 0.0%  | 514.0              | 4,796                | 4,458            | 43%              | \$0.05          | \$0.32 | \$0.35 | n.m.          | 29.2  | 26.7  | 6.24    | 1.5 | 0%    | 3%                                | 3%                  | (14.3%) | \$8.00 |
| SO                         | IP     | International Paper               | Dec.31      | 38.51         | 38.96   | 30.69   | 1.00      | 2.6%  | 430.0              | 16,559               | 16,488           | 37%              | 1.43            | 2.24   | 1.74   | 26.9          | 17.2  | 22.1  | 17.67   | 2.2 | 7%    | 10%                               | 7%                  | (1.3%)  | 37.00  |
| SP                         | LPX    | Louisiana-Pacific                 | Dec.31      | 19.65         | 28.70   | 18.05   | 0.40      | 2.0%  | 104.1              | 2,046                | 2,030            | 24%              | 1.19            | (0.67) | (0.27) | 16.5          | n.m.  | n.m.  | 19.39   | 1.0 | 6%    | (4%)                              | (2%)                | (1.3%)  | 19.00  |
| SO                         | MERC   | Mercer International <sup>4</sup> | Dec.31      | 10.93         | 13.73   | 8.01    | 0.00      | 0.0%  | 33.7               | 368                  | 368              | 76%              | 1.71            | 0.21   | 0.17   | 5.0           | n.m.  | n.m.  | 6.50    | 1.7 | 28%   | 3%                                | 2%                  | 37.2%   | 15.00  |
| SP                         | WY     | Weyerhaeuser                      | Dec.31      | 80.81         | 87.09   | 54.25   | 2.00      | 2.5%  | 217.7              | 17,594               | 16,905           | 47%              | 3.69            | 2.45   | 2.85   | 21.9          | 33.0  | 28.4  | 36.01   | 2.2 | 10%   | 7%                                | 8%                  | (8.4%)  | 72.00  |
| Group Average              |        |                                   |             |               |         |         |           | 1.8%  |                    |                      |                  | 49.6%            |                 |        |        | 17.6          | 26.4  | 25.7  |         | 1.7 | 10.4% | 3.8%                              | 3.8%                | 2.4%    |        |
| <b>Canada (C\$)</b>        |        |                                   |             |               |         |         |           |       |                    |                      |                  |                  |                 |        |        |               |       |       |         |     |       |                                   |                     |         |        |
| R                          | A      | Abitibi                           | Dec.31      | 2.77          | 4.47    | 2.53    | 0.10      | 3.6%  | 440.0              | 1,219                | 1,095            | 59%              | -               | -      | -      | -             | -     | -     | 5.57    | 0.5 | -     | -                                 | -                   | -       | -      |
| SU                         | CFP    | Canfor                            | Dec.31      | 12.15         | 14.03   | 9.54    | 0.00      | 0.0%  | 142.6              | 1,732                | 1,057            | 5%               | (0.69)          | (0.49) | 0.03   | n.m.          | n.m.  | n.m.  | 15.20   | 0.8 | (5%)  | (4%)                              | 0%                  | (34.2%) | 8.00   |
| SP                         | CAS    | Cascades                          | Dec.31      | 11.97         | 15.80   | 10.75   | 0.16      | 1.3%  | 99.5               | 1,191                | 833              | 59%              | 0.64            | 0.64   | 0.76   | 18.7          | 18.7  | 15.8  | 11.63   | 1.0 | 5%    | 5%                                | 5%                  | 9.9%    | 13.00  |
| SU                         | FPS    | Fraser Papers <sup>2</sup>        | Dec.31      | 6.19          | 8.49    | 5.30    | 0.00      | 0.0%  | 29.5               | 183                  | 99               | 18%              | (1.36)          | (0.65) | (0.37) | n.m.          | n.m.  | n.m.  | 11.25   | 0.6 | (9%)  | (5%)                              | (3%)                | (31.3%) | 4.25   |
| SO                         | IFP.A  | Int'l Forest Prod.                | Dec.31      | 9.00          | 9.84    | 5.91    | 0.00      | 0.0%  | 47.8               | 431                  | 410              | (16%)            | 0.26            | 0.36   | 0.46   | 34.6          | 25.0  | 19.6  | 9.93    | 0.9 | 3%    | 4%                                | 5%                  | 11.1%   | 10.00  |
| SP                         | NBD    | Norbord <sup>2,3</sup>            | Dec.31      | 8.66          | 11.91   | 7.71    | 0.40      | 4.6%  | 144.4              | 1,251                | 698              | 55%              | 0.67            | (0.07) | (0.05) | 11.6          | n.m.  | n.m.  | 3.01    | 2.6 | 11%   | (1%)                              | (1%)                | (3.0%)  | 8.00   |
| SP                         | CTL    | Catalyst Paper                    | Dec.31      | 3.42          | 4.31    | 2.40    | 0.00      | 0.0%  | 214.6              | 734                  | 734              | 45%              | (0.11)          | (0.11) | (0.08) | n.m.          | n.m.  | n.m.  | 4.56    | 0.7 | (3%)  | (3%)                              | (2%)                | (12.3%) | 3.00   |
| SU                         | TBC    | Tembec <sup>3</sup>               | Sep.30      | 1.10          | 3.15    | 1.00    | 0.00      | 0.0%  | 85.6               | 94                   | 76               | 59%              | (2.27)          | (1.88) | (2.19) | n.m.          | n.m.  | n.m.  | 8.48    | 0.1 | (40%) | (53%)                             | (145%)              | (31.8%) | 0.75   |
| SP                         | WFT    | West Fraser                       | Dec.31      | 40.16         | 45.99   | 34.85   | 0.56      | 1.4%  | 42.8               | 1,718                | 1,322            | 23%              | 0.48            | 0.66   | 1.75   | n.m.          | n.m.  | 22.9  | 52.35   | 0.8 | 1%    | 1%                                | 4%                  | 1.0%    | 40.00  |
| Group Average              |        |                                   |             |               |         |         |           | 1.2%  |                    |                      |                  | 34%              |                 |        |        | 21.7          | 21.9  | 19.4  |         | 0.9 | (5%)  | (7%)                              | (17%)               | (11.3%) |        |
| <b>Income Trusts (C\$)</b> |        |                                   |             |               |         |         |           |       |                    |                      |                  |                  |                 |        |        |               |       |       |         |     |       |                                   |                     |         |        |
| SO                         | ADN.UN | Acadian Timber Income Fund        | Dec.31      | 12.10         | 12.10   | 7.90    |           |       | 16.6               | 201                  |                  | 39%              | \$0.81          | \$0.87 | \$0.88 | 6.7%          | 7.2%  | 7.3%  |         |     |       |                                   |                     | 6.4%    | 12.00  |
| SO                         | CFX.UN | Canfor Pulp Income Fund           | Dec.31      | 15.46         | 15.75   | 9.50    |           |       | 71.3               | 1,102                |                  | 15%              | \$1.54          | \$2.56 | \$2.20 | 10.0%         | 16.6% | 14.2% |         |     |       |                                   |                     | 23.3%   | 16.50  |
| R                          | PRT.UN | PRT Regeneration Fund             | Dec.31      | 9.15          | 11.94   | 7.76    |           |       | 9.6                | 88                   |                  | 17%              | -               | -      | -      | -             | -     | -     |         |     |       |                                   |                     | -       | -      |
| SP                         | SFK.UN | SFK Pulp Fund                     | Dec.31      | 5.08          | 5.88    | 3.60    |           |       | 90.5               | 460                  |                  | 18%              | \$0.43          | \$0.84 | \$0.71 | 8.5%          | 16.5% | 14.0% |         |     |       |                                   |                     | 10.0%   | 4.75   |
| SP                         | SXP.UN | Supremex Income Fund              | Dec.31      | 9.60          | 10.50   | 7.00    |           |       | 31.3               | 301                  |                  | 20%              | \$0.99          | \$1.24 | \$1.28 | 10.3%         | 12.9% | 13.3% |         |     |       |                                   |                     | 1.5%    | 8.50   |
| SU                         | TWF.UN | TimberWest                        | Dec.31      | 18.00         | 19.65   | 11.81   |           |       | 77.6               | 1,397                |                  | 43%              | 1.34            | 1.38   | 1.37   | 7.4%          | 7.7%  | 7.6%  |         |     |       |                                   |                     | (6.2%)  | 15.50  |
| Group Average              |        |                                   |             |               |         |         |           |       |                    |                      |                  | 24.8%            |                 |        |        | 8.7%          | 12.4% | 11.6% |         |     |       |                                   |                     | 1.8%    |        |

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

2 Reports in U.S. dollars 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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Acadian Timber Income Fund (2g) (ADN.UN-TSX, C\$12.00, Sector Outperformer)  
Bowater Inc. (2g, 9) (BOW-NYSE, US\$21.29, Restricted)  
Canadian National Railway Co. (2g, 7, 9) (CNR-TSX, C\$57.59, Sector Outperformer)  
Canfor Corporation (CFP-TSX, C\$12.23, Sector Underperformer)  
Canfor Pulp Income Fund (2g) (CFX.UN-TSX, C\$15.40, Sector Outperformer)  
Cascades Inc. (2a, 2c, 2e, 2g, 7) (CAS-TSX, C\$12.05, Sector Performer)  
Catalyst Paper Corporation (CTL-TSX, C\$3.50, Sector Performer)  
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Fraser Papers (2g) (FPS-TSX, C\$6.19, Sector Underperformer)  
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International Paper Co. (2g) (IP-NYSE, US\$38.65, Sector Outperformer)  
Louisiana-Pacific Corp. (LPX-NYSE, US\$20.10, Sector Performer)  
Mercer International Inc. (1) (MERC-NASDAQ, US\$11.13, Sector Outperformer)  
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PRT Forest Regeneration Income Fund (2g, 7) (PRT.UN-TSX, C\$9.28, Restricted)  
SFK Pulp Fund (2a, 2c, 2g) (SFK.UN-TSX, C\$5.13, Sector Performer)  
Supremex Income Fund (2g) (SXP.UN-TSX, C\$9.68, Sector Performer)  
Tembec Inc. (2g) (TBC-TSX, C\$1.19, Sector Underperformer)  
TimberWest Forest Corp. (2g, 6a, 7) (TWF.UN-TSX, C\$17.65, Sector Underperformer)  
Universal Forest Products Inc. (1, 2g) (UFPI-NASDAQ, US\$46.82, Sector Performer)  
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Andhra Pradesh Paper Mills Ltd (APPM-BO, [INR]90.35, Not Rated)  
BALLARPUR INDUSTRIES (BILT-BO, [INR]109.45, Not Rated)  
Billerud AB (BILL-ST, [SEK]103.50, Not Rated)  
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Cenveo (CVO-NYSE, US\$25.08, Not Rated)  
ITC (ITC-BO, [INR]156.40, Not Rated)  
JK Paper (CPM-BO, [INR]42.35, Not Rated)  
MeadWestvaco Corp. (MWV-NYSE, US\$32.24, Not Rated)  
Plum Creek Timber Co. Ltd. (PCL-NYSE, US\$41.17, Not Rated)  
Schweitzer Mauduit Int'l (SWM-NYSE, US\$29.95, Not Rated)  
Siam Cement Group (SCC-BK, [THB]232.00, Not Rated)  
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- 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.
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## CIBC World Markets Price Chart

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| 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.

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\*\*\*Restricted due to a potential conflict of interest.

### Ratings Distribution\*: CIBC World Markets' Coverage Universe

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|---------------------------------|-------|---------|---------------------------------|-------|---------|
| Sector Outperformer (Buy)       | 349   | 38.9%   | Sector Outperformer (Buy)       | 169   | 48.4%   |
| Sector Performer (Hold/Neutral) | 441   | 49.2%   | Sector Performer (Hold/Neutral) | 217   | 49.2%   |
| Sector Underperformer (Sell)    | 71    | 7.9%    | Sector Underperformer (Sell)    | 29    | 40.8%   |
| Restricted                      | 24    | 2.7%    | Restricted                      | 23    | 95.8%   |

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

| (as of 11 May 2007)             | Count | Percent | Inv. Banking Relationships      | Count | Percent |
|---------------------------------|-------|---------|---------------------------------|-------|---------|
| Sector Outperformer (Buy)       | 5     | 29.4%   | Sector Outperformer (Buy)       | 4     | 80.0%   |
| Sector Performer (Hold/Neutral) | 7     | 41.2%   | Sector Performer (Hold/Neutral) | 5     | 71.4%   |
| Sector Underperformer (Sell)    | 3     | 17.6%   | Sector Underperformer (Sell)    | 2     | 66.7%   |
| Restricted                      | 2     | 11.8%   | Restricted                      | 2     | 100.0%  |

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

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