



## International Forest Products Limited

### INFORMATION CIRCULAR

Dated as of March 7, 2006

FOR THE ANNUAL GENERAL MEETING OF SHAREHOLDERS  
TO BE HELD ON APRIL 27, 2006

#### SOLICITATION OF PROXIES

This information circular is furnished in connection with the solicitation of proxies BY THE MANAGEMENT OF INTERNATIONAL FOREST PRODUCTS LIMITED (the "Company" or "Interfor") for use at the Annual General Meeting of the shareholders of the Company to be held at the time and place and for the purpose set out in the accompanying Notice of Annual General Meeting. Interfor intends to solicit most proxies by mail, but some proxies may be solicited by telephone or other personal contact by employees or members of management. The cost of solicitation by management will be borne by the Company. Unless otherwise stated, the information is given as of the date of this circular.

#### APPOINTMENT AND REVOCATION OF PROXIES

The persons named as proxyholders in the enclosed form of proxy are Directors of the Company. **A shareholder desiring to appoint some other person to attend and act on their behalf at the meeting may do so in accordance with the instructions on the form of proxy.**

A shareholder may revoke a proxy by an instrument in writing:

- (a) signed by the shareholder or by their attorney authorized in writing or, where the shareholder is a corporation, by a duly authorized officer or attorney of the corporation; and
- (b) delivered either to the registered office of the Company at any time up to and including the last business day preceding the day of the meeting, or any adjournment thereof, at which the proxy is to be used, or to the chairman of the meeting on the day of the meeting, or any adjournment thereof;

or in any other manner provided by law.

#### EXERCISE OF DISCRETION BY PROXYHOLDERS

The persons named in the enclosed form of proxy will, on any ballot, vote or withhold from voting the shares in respect of which they are appointed in the manner specified in the form of proxy. **Where no choice is specified in the form of proxy with respect to a matter identified therein, the shares will be voted in favour of any ballot that may be called for that matter.** So far as is known to management, no matters other than those stated in the Notice of Annual General Meeting will be presented at the meeting, but if any such matters should arise, the enclosed form of proxy confers a discretionary authority upon the persons named therein with respect to amendments or variations to matters identified in the Notice of Annual General Meeting and with respect to other matters which may properly come before the meeting.

## **VOTING SHARES AND PRINCIPAL HOLDERS THEREOF**

Shareholders registered as holders of Class “A” Subordinate Voting shares and shareholders registered as holders of Class “B” Common shares on the record date of March 17, 2006 will be entitled to receive notice of and to attend and vote at the meeting. Each person appointed under a form of proxy for use at the meeting will be entitled to vote the shares represented thereby if the form of proxy is properly completed and delivered to Computershare Investor Services Inc., Attention Proxy Department, 100 University Avenue, 9<sup>th</sup> Floor, Toronto, Ontario, M5J 2Y1, not later than 48 hours, excluding Saturdays and holidays, before the time of the meeting or any adjournment thereof.

The authorized capital of the Company consists of 106,700,000 shares without par value divided into 100,000,000 Class “A” Subordinate Voting shares, 1,700,000 Class “B” Common shares and 5,000,000 Preference shares. Each Class “A” Subordinate Voting share carries the right to one vote either on a show of hands or on a poll. Each Class “B” Common share carries the right to one vote on a show of hands and to ten votes on a poll. The Preference shares do not carry the right to vote except as provided in Article 21.3(h) of the Articles of the Company.

Class “B” Common shares will automatically convert into Class “A” Subordinate Voting shares in certain circumstances including any transfer thereof by certain shareholders, unless the purchaser acquires a majority of the outstanding Class “B” Common shares and makes an offer to purchase all outstanding Class “A” Subordinate Voting and Class “B” Common shares at an equivalent price. See Share Capital — Rights on Take-over Bids and Conversion of Multiple Voting Shares in the Company’s Annual Information Form.

As of the date of this circular there were 47,662,016 Class “A” Subordinate Voting shares and 1,015,779 Class “B” Common shares outstanding. The holders of Class “A” Subordinate Voting shares have the exclusive right, voting separately as a class, to elect one Director of the Company. The holders of the Class “B” Common shares have the exclusive right, voting separately as a class, to elect the remaining Directors of the Company. If there are no holders of Class “B” Common shares, the holders of Class “A” Subordinate Voting shares have the right to elect all the Directors of the Company. Class “B” Common shares are exchangeable for Class “A” Subordinate Voting shares, share for share. The Class “A” Subordinate Voting shares represent 82.43% of the aggregate voting rights attached to securities of the Company.

To the knowledge of the Directors and senior officers of the Company only the following persons beneficially own, directly or indirectly, or exercise control or direction over voting securities carrying more than 10% of the voting rights attached to either class of voting securities of the Company:

<b>Name</b>	<b>Number and Class of Shares</b>	<b>Percentage of Class</b>
Mountclair Investment Corporation (1) and William L. Sauder	1,124,271 Class “A” Subordinate Voting shares 1,011,735 Class “B” Common shares	2.36 99.60
CCM Master Qualified Fund Ltd. (2)	6,045,030 Class “A” Subordinate Voting shares	12.68

(1) All the issued shares of Mountclair Investment Corporation are owned by a holding company, all of the voting shares of which are held directly or indirectly by William L. Sauder, a proposed nominee for Director.

(2) CCM Master Qualified Fund Ltd. is managed by Coghill Capital Management LLC, a Chicago based money management firm.

## **BUSINESS TO BE TRANSACTED AT THE ANNUAL GENERAL MEETING**

### **1. Receiving the Financial Statements**

The consolidated financial statements of the Company for the year ended December 31, 2005 and the report of the auditor thereon will be tabled at the meeting.

### **2. Fixing the Number of Directors**

Article 10.1 of the Articles of the Company provides that the number of Directors is to be fixed by an ordinary resolution of the shareholders. The number was last fixed by the shareholders at eleven. The Directors recommend that the number of Directors be reduced to nine by approving the following resolution: “Be it resolved that pursuant to Article 10.1, the number of Directors be fixed at nine.”

### 3. Appointment of Auditors

Unless otherwise instructed, the persons designated in the enclosed form of proxy will vote in favour of the appointment of KPMG LLP, Chartered Accountants, Vancouver, British Columbia, as auditors of the Company to hold office until the next Annual General Meeting of members and to authorize the Directors to fix the remuneration of the auditors so appointed.

In 2005, the Company engaged KPMG LLP as both financial and environmental certification auditors. Fees for financial audits, environmental certification audits and other services provided by KPMG LLP were approximately as follows:

	<u>2005 Fees</u>	<u>2004 Fees</u>
Audit and audit-related fees:		
Audit of the consolidated financial statements	\$ 366,075	\$ 301,500
Quarterly reviews	73,000	55,500
Audit-related fees (1)	<u>105,900</u>	<u>225,625</u>
Total audit and audit-related fees	544,975	582,625
Tax fees (2)	100,469	159,239
All other fees - forestry certification audits	80,800	126,900
- internal control over financial reporting advisory fees	98,800	—
- due diligence advisory fees	<u>15,000</u>	<u>—</u>
Total fees:	<u>\$ 840,044</u>	<u>\$ 868,764</u>

- (1) Audit-related fees for the current year consist principally of fees for professional services rendered with respect to the acquisition of assets from Floragon Forest Products Molalla Inc. and related Business Acquisition Report requirements, audits of a defined pension plan, investee companies and the Company's accounts receivable securitization agreement, and advice and assistance related to accounting issues.
- (2) Tax fees consist of fees for tax compliance services, professional services related to U.S. cross border issues with respect to acquisitions and cross border transfer pricing, and tax work related to operations in China.

### 4. Election of Directors

Each of the persons whose name appears hereunder is proposed to be nominated for election as a Director of the Company to serve until the next Annual General Meeting of the members or until he ceases to hold office, if that is sooner.

The persons designated in the enclosed form of proxy intend to vote in favour of the election of these nominees and management does not contemplate that any of the nominees will be unable to serve as a Director.

The following information concerning the respective nominees has been furnished by them:

Nominees for Director	Present Principal Occupations and Other Information	Director Since
<b>Nominee for Holders of Class "A" Subordinate Voting shares only</b>		
<b>LAWRENCE I. BELL</b> (a)(b)(c) Vernon, B.C., Canada	Mr. Bell is the Chairman of B.C. Hydro and Power Authority, an electricity generation and distribution company. He is also the Chairman of the Canada Line (Rapid Transit Project) and a Director of Goldcorp Inc., Miramar Mining Corporation, Hardwoods Distribution Income Fund and several private companies. He has also been a Deputy Minister in several portfolios of the B.C. Government and the Chairman of the Board of Governors of the University of B.C. He holds a masters degree and has received numerous awards for his public service.	Apr. 29, 1998

Nominees for Director	Present Principal Occupations and Other Information	Director Since
<b>Nominee for Holders of Class “B” Common shares only</b>		
<b>DUNCAN K. DAVIES</b> Vancouver, B.C., Canada	Mr. Davies is the President and Chief Executive Officer of the Company. He has experience as the Chairman of several industry organizations and was a principal in an independent forest products company. He was a Vice President of an investment banking firm and subsequently held senior positions in two other large forest products companies. He has a bachelors degree in economics and a masters degree in forestry economics.	Nov. 24, 1998
<b>ROBERT E. KADLEC (b)(d)</b> West Vancouver, B.C., Canada	Mr. Kadlec is the Chairman and Chief Executive Officer of Bentley Capital Corp., a venture capital company. He is also a Director of Questar Corporation, Vancouver International Airport Authority and Eaton Power Corporation. He was previously the President and Chief Executive officer of B.C. Gas Inc. and has received awards for his business leadership. He is a Professional Engineer with a degree in civil engineering	Oct. 18, 1994
<b>HAROLD C. KALKE (a)(b)(c)</b> West Vancouver, B.C., Canada	Mr. Kalke is the President of Kalico Developments Ltd., a real estate development and management company. He has founded and operated several companies in the real estate development business and the oil and gas sector. He has a degree in engineering and a Masters of Business Administration, and has served as Chairman of the Board of Governors of the University of B.C.	Jul. 18, 2000
<b>CLAUDE C. LAVAL, III (a)(d)</b> Fresno, Calif., U.S.A.	Mr. Laval is the Chairman of Claude Laval Corporation, a manufacturer of filtration equipment and systems. He is currently a Director of several private corporations and organizations in the U.S. He has previously been the Chief Executive Officer of two publicly traded companies based in the U.S. He has a degree in public administration and is on the board of several community organizations including California State University in Fresno.	Apr. 28, 1994
<b>JOHN A. MILROY (a)(b)(d)</b> Vancouver, B.C., Canada	Mr. Milroy is an independent business consultant. He is a Chartered Accountant who has spent most of his career in industry. He has been the Chief Executive Officer of a North American manufacturer of sawmill equipment and Vice President of Finance or Chief Financial Officer of two publicly traded companies in Canada. He has served as a Commissioner and Chairman of the North Fraser Harbour Commission.	Mar. 23, 1978
<b>E. LAWRENCE SAUDER (c)</b> Vancouver, B.C., Canada	Mr. Lawrence Sauder is the Chairman of the Board of Hardwoods Distribution Income Fund, a distributor of wood products, and Vice Chairman of Sauder Industries Limited, a manufacturer and distributor of building products. He was previously the President of Sauder Industries Limited. He is a member of the World Presidents Organization.	Apr. 18, 1984

Nominees for Director	Present Principal Occupations and Other Information	Director Since
<b>Nominee for Holders of Class “B” Common shares only</b>		
<b>WILLIAM L. SAUDER</b> (c) Vancouver, B.C., Canada	Mr. William Sauder is Chairman of the Company. He is also Chairman of Sauder Industries Limited, a manufacturer and distributor of building products. He has been a Director of a Canadian Chartered Bank and numerous public, private and government organizations. He is a graduate of the University of B.C. and remains active in the affairs of the University after serving two terms as Chancellor and a term as Chairman of the Board of Governors. In 2003, the Faculty of Commerce was renamed the Sauder School of Business to reflect his generosity to the University in personal and financial contributions. He is a recipient of the Order of B.C., the Order of Canada, and in 2005 received the Woodrow Wilson Award for Corporate Citizenship. He is a member of the World Presidents Organization.	Jul. 27, 1977
<b>JOHN P. SULLIVAN</b> (b)(d) Vancouver, B.C., Canada	Mr. Sullivan retired in 2003 from his position as a Vice President of the Company. He joined Interfor following the acquisition of Primex Forest Products Ltd., where he was Vice President, Corporate Development. He served in various management capacities during his 30 years with Primex. He also served on the Board of Primex, as well as Air Canada and several private companies.	May 1, 2001

(a) Member of the Audit Committee

(b) Member of the Corporate Governance Committee

(c) Member of the Management Resources and Compensation Committee

(d) Member of the Environment and Safety Committee

Under the arrangements entered into in connection with the acquisition of Primex Forest Products Ltd., the Company has agreed to nominate (and William L. Sauder and Mountclair Investment Corporation have separately agreed to vote for) John P. Sullivan for election to the Board of Directors of the Company until March 28, 2006, subject to certain conditions.

To our knowledge, only one of our directors and executive officers has, in the last ten years, been an officer or director of a company that, while that person was acting in that capacity, was subject to bankruptcy or similar proceedings or securities regulatory sanctions as described in *National Instrument 51-102 Continuous Disclosure Obligations*. Lawrence Bell was previously a director of Pegasus Gold Inc. which on January 16, 1998, voluntarily filed to reorganize under Chapter 11 of the U.S. Bankruptcy Code.

### **Directors' Compensation and Shareholding Requirement**

Each Director, other than the Chairman and the Chief Executive Officer (“CEO”), was paid a retainer of \$25,000 in 2005 for services to the Board and an amount of \$1,000 for each board meeting attended. In addition, each such Director who was a member of a committee was paid a retainer of \$2,000 for each committee and an amount of \$1,000 for each committee meeting attended. The Chairman of the Audit Committee was paid an additional fee of \$7,500. Other committee chairmen were paid an additional fee of \$2,500 and \$1,000 per day if additional preparation or travel time was required. The Chairman of the Board was paid the Director retainer of \$25,000 and \$125,000 for the year as Chairman of the Board. The CEO was paid \$6,000 for the year as a Director. During 2005, the Chairman was granted 10,000 Deferred Share Units and all other non-executive Directors were granted 2,000 Deferred Share Units. All of the Deferred Share Units were granted under the Company’s Deferred Share Unit Plan at market values of either \$7.24 or \$7.59.

Within five years of becoming a Director, or by 2006, whichever was later, each Director was required to own a minimum number of Class “A” Subordinate Voting shares or Deferred Share Units which was equal in value to \$75,000, representing five times the annual Director’s retainer at the time the requirement was implemented. As of the date of this circular, the Class “A” Subordinate Voting shares and Deferred Share Units held by each Director had an aggregate value of at least \$75,000 based on the 2005 year-end value of the Class “A” Subordinate Voting shares. In January 2006, the minimum shareholding requirement was increased to \$125,000, representing five times the current annual retainer. Directors must meet the new requirement within five years of becoming a Director, or by 2011, whichever is later.

**Directors' Fees Paid to Individual Directors in 2005 and Shares and Deferred Share Units Held as of March 7, 2006 by Nominees as Director**

<b>Director</b>	<b>Fees paid in 2005</b>	<b>Value of Deferred Share Units Granted</b>	<b>Number of Class "A" Subordinate Voting or Class "B" Common Shares Held</b>		<b>Number of Deferred Share Units Held</b>
Lawrence Bell	\$55,500	\$14,482	6,000	Class "A"	6,000
Duncan Davies	6,000	—	11,500	Class "A"	140,400
Robert Kadlec	49,000	\$14,482	6,000	Class "A"	6,000
Harold Kalke	61,000	\$14,482	5,300	Class "A"	6,000
Claude Laval III	54,500	\$14,482	7,500	Class "A"	6,000
Richard McKerracher	34,000	\$14,482	4,500	Class "A"	6,000
John Milroy	63,500	\$14,482	5,000	Class "A"	6,000
Lawrence Sauder	42,500	\$14,482	5,000	Class "A"	6,000
William Sauder	150,000	\$74,476	1,124,271 1,011,735	Class "A" Class "B"	24,000
Joseph Segal	36,000	\$14,482	23,392	Class "A"	6,000
John Sullivan	51,000	\$14,482	80,786	Class "A"	6,000
<b>Total</b>	<b>\$603,000</b>	<b>\$204,814</b>	<b>2,290,984</b>		<b>218,400</b>

**Record of Meetings Attended in 2005**

<b>Director</b>	<b>Board Meetings Attended</b>	<b>Committee Meetings Attended</b>
Lawrence Bell	9 of 11	13 of 13
Duncan Davies	11 of 11	n/a
Robert Kadlec	10 of 11	10 of 10
Harold Kalke	11 of 11	13 of 13
Claude Laval III	11 of 11	8 of 8
Richard McKerracher	9 of 11	n/a
John Milroy	11 of 11	14 of 14
Lawrence Sauder	9 of 11	3 of 3
William Sauder	10 of 11	2 of 3
Joseph Segal	6 of 11	3 of 3
John Sullivan	11 of 11	8 of 8
<b>Total</b>	<b>108 of 121</b>	<b>74 of 75</b>

**Interest of Certain Persons or Companies in Matters to be Acted Upon**

Other than through the beneficial ownership of securities of the Company, no Director or Executive Officer of the Company at any time since the beginning of the Company's last financial year, no proposed nominee for election as a director of the Company and no associate or affiliate of such persons has any material interest, direct or indirect, in any matter to be acted upon at the Meeting.

**EXECUTIVE COMPENSATION**

**Composition of the Management Resources and Compensation Committee**

The following individuals served as members of the Committee during all or part of the year ended December 31, 2005. Those who were executive officers, employees or former executive officers of Interfor or any of its subsidiaries are as noted.

L.I. Bell (Chairman)

H.C. Kalke

E.L. Sauder

W.L. Sauder - Chairman of the Board; formerly Chief Executive Officer of Interfor until February 1, 2000.

J. Segal

## **Report on Executive Compensation**

### **Role of the Management Resources and Compensation Committee**

The Committee is mandated to review the strength and depth of the Company's human resources. In so doing, it reviews executive appointments and reassignments in the context of a management succession plan. The Committee reviews and recommends overall compensation, including profit sharing and long-term incentives, at the executive level and monitors the competitiveness of compensation at all levels of management. The Chief Executive Officer provides appropriate information regarding compensation and the development of senior management. The Committee is responsible for ensuring that the objectives and activities of the Chief Executive Officer are in alignment with the expectations of the Board of Directors. The Committee is also mandated to monitor the objectives, form and performance of the Company's pension plans.

### **Executive Compensation Philosophy and Objectives**

Interfor's compensation program for executive officers has three primary components:

- salaries,
- annual cash incentives, and
- equity based long term incentives.

In combination, the programs in these areas form a comprehensive strategy to encourage the achievement of Interfor's objectives by:

- Attracting and retaining experienced, qualified, capable executives by paying salaries which are competitive in the markets in which Interfor operates and competes for executive talent;
- Motivating short term performance by directly linking annual incentive compensation opportunities to individual performance in relation to individual goals and to the financial performance of the Company;
- Encouraging strong linkages with shareholders' long term interests by providing executives with equity based compensation; and
- Ensuring the retention and development of qualified, talented staff for management succession and continuity of financial and operating performance.

Interfor's objective is to put the greatest emphasis on the Company's financial performance by placing a significant proportion of compensation at risk based on results. In the years of strongest financial performance, more than half of the total compensation earned by the Chief Executive Officer and each of the Company's five most highly paid officers (the "Named Executive Officers") could come from variable performance related cash and equity compensation.

The Committee uses comparative data obtained from third parties to measure the competitiveness of each component of compensation and total compensation levels. The Company uses a comparator group comprised of other companies in the forest industry in Canada. In addition, the Committee reviews competitive data from other industry sectors reflecting autonomous companies of similar size and complexity.

### **Salary**

The Committee reviews and approves salary guidelines and salary adjustments for the Named Executive Officers by reference to:

- industry data provided by third party sources,
- individual performance of each executive officer, and
- the Company's ability to pay.

At the beginning of 2002, the salaries of the Named Executive Officers were positioned, on average, below the median and average of the comparator group. During 2002, the Named Executive Officers received increases of 19% on average. No changes were made to the salaries of the Named Executive Officers since that time except for the Senior Vice President of U.S. Operations who joined the Company in 2004.

### Annual Incentives

The Company provides annual incentives to all salaried employees, including the Named Executive Officers, through the Short Term Achievement Reward (“STAR”) Plan. Under this Plan, a portion of the pretax profits for each region of the Company above a minimum threshold level are allocated to all salaried employees in that region. This plan recognizes the cyclical nature of the forest industry and can result in a large swing in award levels from year to year. In years when regional profits are below threshold levels, no awards are paid. In years when awards are made, a portion of the award is allocated to individual employees based on their own performance.

In respect of 2005, the Plan generated a pool of \$910,000 which was allocated to salaried employees on a regional basis. None of this amount was allocated to the Named Executive Officers.

In special circumstances, the Company may also grant a number of discretionary awards based on individual performance. In respect of 2005, a total of \$500,000 was paid in discretionary awards, of which \$220,000 was paid to the Named Executive Officers.

### Long Term Incentives

The Company provides senior management employees, including the Named Executive Officers, with long term incentives through a Share Option Plan, a Share Appreciation Rights Plan, a Total Shareholder Return Plan and a Deferred Share Unit Plan. These plans are designed to reinforce the connection between remuneration and Company performance by motivating and rewarding participants for improving the Company’s long term financial strength and shareholder wealth.

**1. The Share Option Plan**, established upon shareholder approval in 1988, and amended in 1999, grants participants options to purchase Class “A” Subordinate Voting shares at a price established at the time of the grant. Under this plan, 3,000,000 shares were reserved in 1999 and, with the approval of the Toronto Stock Exchange, a further 250,000 shares were reserved to facilitate the acquisition of Primex Forest Products Ltd. in 2001. As of December 31, 2005, options had been granted and not cancelled or expired on 2,527,300 shares, of which 743,800 share options had been exercised. All share options granted under the plan were granted at fair market value on the date of the grant. No options have been granted since 2001 and the options remaining outstanding represent less than 4% of the Class “A” Subordinate Voting shares issued as at the date of this circular. Share options may be exercised for a term of up to ten years from the date they are granted, subject to the following vesting requirements:

#### **Schedule of Vesting Provisions for Stock Options and Share Appreciation Rights**

<u>Time From Date of Grant</u>	<u>% Exercisable</u>
2 years	40%
3 years	60%
4 years	80%
5 years	100%

**2. The Share Appreciation Rights (“SAR”) Plan** was approved by the Board of Directors in January 2002. The rights granted under this plan can be exercised for a cash payment equal to the number of rights exercised multiplied by the increase in market value of the Company’s Class “A” Subordinate Voting shares between the time of the grant and the time of exercise. SARs are granted taking into consideration the employee’s position and salary, and the value of the underlying Class “A” Subordinate Voting shares. SARs may be exercised for a term of up to ten years from the date they are granted, subject to the vesting provisions shown in the table above. During 2005, 26,800 SARs were granted to the Named Executive Officers. The number of existing options or SARs outstanding was a factor in determining the size of the grant. As of December 31, 2005, SARs had been granted and not cancelled or expired representing 1,271,540 Class “A” Subordinate Voting shares, of which 116,120 had been exercised.

**3. The Total Shareholder Return (“TSR”) Plan** was approved by the Board in January 2003. Under the terms of this Plan, a target award is established for each participant to be earned over a three-year performance period. The target award is expressed as a percentage of the annual salary in effect at the beginning of the performance period, and is earned after a threshold level of increase in the Company’s share value has been achieved. The award at the end of the performance period is paid in cash, or at the option of the executive, in Deferred Share Units.

For the first three-year performance period beginning in 2003, the plan was extended to the Chief Executive Officer, the Chief Operating Officer and the Chief Financial Officer with target awards of 300%, 225% and 225% respectively. Also, for the first performance period, the Board determined that retention had been insufficiently considered in the executive compensation strategy, and therefore the Board guaranteed the target award for the first performance period. An increase in share value of 15% compounded annually over the performance period would result in the maximum award of twice the target award. On December 31, 2005, the first performance period was completed with a compounded annual growth rate in the share price of 7.78% resulting in an award of \$1,917,579 to the Chief Executive Officer and \$1,006,729 to the Chief Financial Officer. The Chief Operating Officer left the Company in 2004.

For the second three-year performance period beginning in 2004, the target awards for the Chief Executive Officer, Chief Operating Officer and Chief Financial Officer are 100%, 75% and 75% respectively and the target awards are earned if an average increase in share value of 7.5% compounded annually is achieved. If the compounded average annual increase is 5%, one-half of the target award would be earned. If the compounded average annual increase is 15%, the maximum award of twice the target award would be earned.

For the three year performance periods beginning in 2005 and 2006, there was no change to the Plan, except that the Senior Vice President, U.S. Operations replaced the Chief Operating Officer as a participant in the Plan.

**4. The Deferred Share Unit (“DSU”) Plan** was approved by the Board in January 2004 for Directors and senior officers of the Company. The Plan is intended to provide a better link between share performance and compensation for the participants, in that DSUs either increase or decrease in value in a direct relationship with the Company’s Class “A” Subordinate Voting shares. Participants in the TSR Plan may elect to receive their award in DSUs at the end of any performance period. On December 31, 2005, the Chief Executive Officer elected to receive 140,400 DSUs representing approximately 52% of his TSR award and the Chief Financial Officer elected to receive 70,700 DSUs representing approximately 50% of his award under the TSR Plan. DSUs may also be granted directly to Directors or senior employees of the Company at the discretion of the Board. Since implementation in January 2004, a total of 78,000 DSUs have been granted to Directors under the plan as listed in the table under the heading of Directors’ Compensation and Shareholdings.

#### **Chief Executive Officer Compensation and Corporate Performance**

The Chief Executive Officer’s salary is normally targeted at competitive levels for the forest sector, taking into account the complexity and autonomous characteristics of Interfor. A review process in 2002 resulted in an increase from \$400,000 per year to \$500,000 effective October 15, 2002. No changes have been made since that date and currently the salary component of his total compensation is positioned at the median for large Canadian publicly-traded forest products companies. The Chief Executive Officer also receives an annual retainer of \$6,000 as a Director of the Company.

The Chief Executive Officer participates in Interfor’s Annual Incentive Plan, the STAR Plan, with a target award of 50% of his annual salary. While two regions of the Company received awards under the Plan, the thresholds for the corporate group were not met and therefore no awards were made to him in respect of 2005.

The Chief Executive Officer participates in only one of the Company’s Long Term Incentive Plans in any particular year. Since 2002, the Chief Executive Officer has participated in the TSR Plan as described in this report under the heading Long Term Incentives. These awards, in conjunction with salary and the STAR Plan reflect the compensation philosophy articulated in this report and remain consistent with Interfor’s performance.

### Executive Shareholding Requirement

The Chief Executive Officer and the Senior Vice Presidents who are members of the Total Shareholder Return Plan are required to hold a minimum number of Class "A" Subordinate Voting shares or Deferred Share Units which is equal in value to twice their annual salaries. Value for this purpose is the higher of cost or market value. This requirement must be met within five years of becoming a participant in the Total Shareholder Return Plan.

The following table shows the actual and required share and Deferred Share Unit holdings for the participants in the TSR plan based on the 2005 year-end value of the Class "A" Subordinate Voting shares.

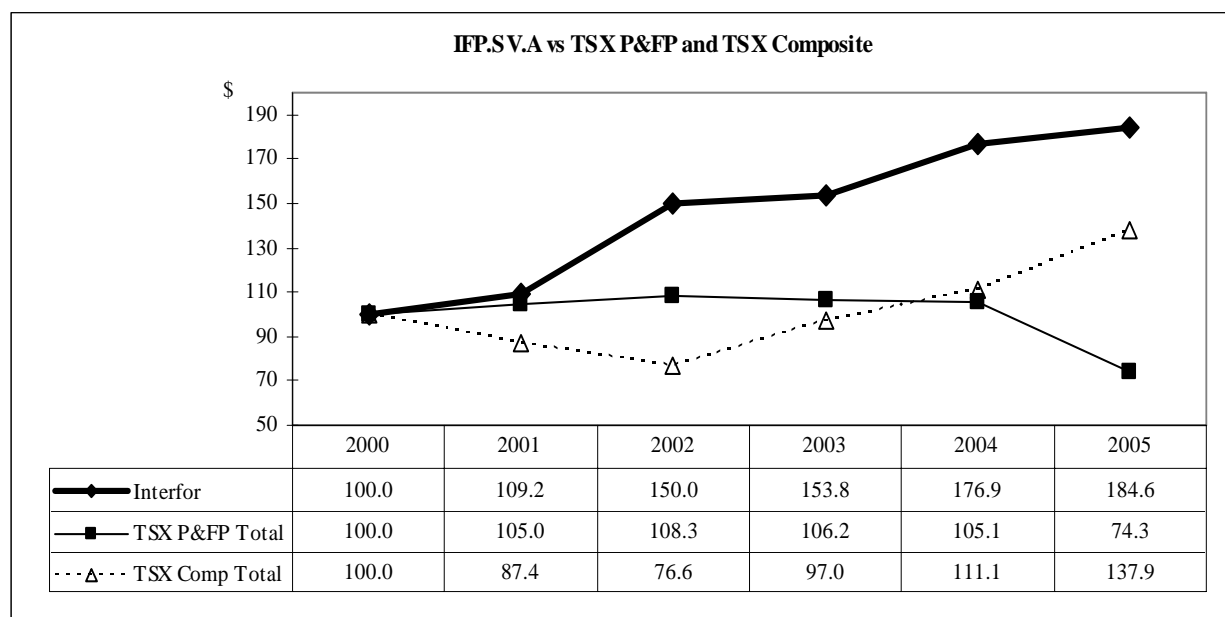
	Number of Class "A" Shares Held	Number of Deferred Share Units Held	Total Shares and Deferred Share Units Held	Value of Shares and Deferred Share Units Held	Value of Holdings Required	Date Required
Chief Executive Officer	11,500	140,400	151,900	\$1,093,680	\$1,000,000	Jan. 1, 2007
Chief Financial Officer	5,000	70,700	75,700	\$545,040	\$700,000	Jan. 1, 2007
Senior VP, U.S. Operations	—	—	—	—	US\$550,000	Sept. 1, 2009

Report Submitted by:

- L.I. Bell (Chairman)
- H.C. Kalke
- E.L. Sauder
- W.L. Sauder
- J. Segal

### Five Year Total Shareholder Return Comparison

The following graph compares the cumulative changes over the last five years in the value of \$100 invested in Interfor shares with \$100 invested in the S&P/TSX Composite Total Return Index and \$100 invested in the TSX Paper and Forest Products Total Return Index.



### Summary Compensation Table

The following table sets forth a summary of compensation paid during or in respect of the last three fiscal years to the Company's Chief Executive Officer and its other Named Executive Officers who had the highest aggregates of salary and bonus during 2005.

### Summary Compensation Table

Name and Principal Position	Fiscal Year	Annual Compensation			Long-Term Compensation			All Other Compensation
		Salary	Bonus (Profit Sharing)	Other Annual Compensation	Awards		Payouts	
					Securities Under Options/SARs Granted	Restricted Shares or Restricted Share Units	LTIP Payouts	
		\$	\$	\$(3)	#	\$	\$(4)	\$(5)
<b>Duncan K. Davies</b> (1) President & Chief Executive Officer	2005	506,000	—	999,760	—	—	917,819	8,750
	2004	506,000	45,130	—	—	—	—	7,750
	2003	506,000	—	—	—	—	—	7,750
<b>John A. Horning</b> Senior Vice President & Chief Financial Officer	2005	350,000	100,000	503,441	—	—	503,288	8,750
	2004	350,000	94,934	—	—	—	—	7,750
	2003	350,000	—	—	—	—	—	7,750
<b>Sandy M. Fulton</b> (2) Senior Vice President, U.S. Operations	2005	US271,667	US 87,340	—	—	—	—	US 5,500
	2004	US 78,333	US 58,428	—	—	—	—	—
	2003	—	—	—	—	—	—	—
<b>Otto F. Schulte</b> Vice President, Coastal Woodlands	2005	210,000	20,000	—	13,400	—	—	8,750
	2004	210,000	13,150	—	15,600	—	—	7,750
	2003	210,000	—	—	23,900	—	—	7,750
<b>Jack. E. Draper</b> Vice President, Cedar	2005	210,000	—	—	13,400	—	—	8,750
	2004	210,000	13,680	—	15,600	—	—	7,750
	2003	210,000	—	—	23,900	—	—	7,750

- (1) Duncan Davies' salary includes a director's fee of \$6,000 per year.
- (2) Sandy Fulton was appointed Senior Vice President, U.S. Operations on September 1, 2004.
- (3) Other Annual Compensation represents the value of LTIP payouts from the Total Shareholder Return Plan that was deferred during 2005 by conversion to Deferred Share Units.
- (4) LTIP Payouts represent the value under the Total Shareholder Return Plan that was payable in cash in respect of 2005.
- (5) All Other Compensation represents Company payments to either a Canadian or U.S. defined contribution retirement plan available to all salaried employees.

### Long-Term Incentives

The following table sets forth the Long-Term Incentive grants made during 2005.

#### Long-Term Incentive Awards During the Most Recently Completed Financial Year

Name	Securities Units or Other Rights (#)	Performance Period Until Payout	Estimated Future Payout Under Non-Securities-Price Based Plans		
			Threshold	Target	Maximum
Duncan K. Davies	n/a	3 Years ended Dec 31, 2007	\$ 250,000	\$ 500,000	\$ 1,000,000
John A. Horning	n/a	3 Years ended Dec 31, 2007	\$ 131,250	\$ 262,500	\$ 525,000
Sandy M. Fulton	n/a	3 Years ended Dec 31, 2007	US 103,125	US 206,250	US 412,500
Otto F. Schulte	—	—	—	—	—
Jack E. Draper	—	—	—	—	—

- (1) The Threshold is met if the compound average growth rate of the Company's Class "A" Subordinate Voting shares during the Performance Period is 5%.
- (2) The Target is met if the compound average growth rate of the Company's Class "A" Subordinate Voting shares during the Performance Period is 7.5%.
- (3) The Maximum is reached if the compound average growth rate of the Company's Class "A" Subordinate Voting shares during the Performance Period is 15%.

### Stock Option and SAR Tables

The following table sets forth information concerning options and Share Appreciation Rights ("SARs") granted to each Named Executive Officer during 2005, all of which were granted on January 26, 2005:

#### Option/SAR Grants During the Most Recently Completed Financial Year

Name	Securities Under Options/SARs Granted (#)	% of Total Options/SARs Granted to Employees in Financial Year	Exercise (1) or Base Price (\$/Security)	Market Value of Securities Underlying Options/SARs on the Date of Grant (\$/Security)	Expiration Date
Duncan K. Davies	— / —	— / —	— / —	— / —	— / —
John A. Horning	— / —	— / —	— / —	— / —	— / —
Sandy M. Fulton	— / —	— / —	— / —	— / —	— / —
Otto F. Schulte	— / 13,400	— / 6.0	— / 7.09	— / 7.09	— / January 25, 2015
Jack E. Draper	— / 13,400	— / 6.0	— / 7.09	— / 7.09	— / January 25, 2015

- (1) The price range of the underlying Class "A" Subordinate Voting Shares in the 30 day period preceding the grant was \$6.65 to \$7.48.
- (2) For details regarding the terms of the SARs see the discussion in item #2 under the heading Long Term Incentives.

The following table sets forth information concerning the value realized upon the exercise of options during 2005 and the value of unexercised options held by Named Executive Officers as at December 31, 2005:

**Aggregated Option/SAR Exercises during the Most Recently Completed Financial Year**

and

**Financial year-end Option/SAR Values**

Name	Securities Acquired on Exercise (#)	Aggregate Value Realized (\$)	Unexercised Options/SARs at December 31, 2005 (#)		Value of Unexercised in-the-Money Options/SARs at December 31, 2005 (\$)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Duncan K. Davies	—	—	411,660	58,340	1,176,662	181,713
John A. Horning	—	—	91,580	24,520	260,760	75,147
Sandy M. Fulton	—	—	—	—	—	—
Otto F. Schulte	Options 12,800 SARs 19,740	49,423 64,350	21,960	62,900	35,110	90,483
Jack E. Draper	—	—	125,700	62,900	302,471	90,483

**Retirement Plans**

The Company provides retirement benefits to Mr. W.L. Sauder of \$200,000 annually under a retirement agreement. The pension is in the form of a lifetime annuity with a 60% joint survivor benefit.

Retirement benefits for the Named Executive Officers are provided under a Company sponsored defined contribution plan. This plan provides all salaried employees, including the Named Executive Officers with the opportunity to make voluntary contributions to a Group Registered Retirement Savings Plan of up to 6% of salary, to a maximum in 2005 of \$8,750. The Company equally matches employee contributions with contributions to a Deferred Profit Sharing Plan.

The Named Executive Officers are entitled to a pension supplement calculated as a notional extension of the Company's Deferred Profit Sharing Plan. To the extent that it exceeds Canada Revenue Agency maximums, 6% of each of their earnings for years before 2002 and 12% for years thereafter is accrued and accumulated with an investment return until retirement. For this purpose, earnings include profit sharing payments to a maximum of 50% of salary. No benefits are payable under the plan before age 60. The notional contributions for 2004 and the total amount accrued for each of the Named Executive Officers as at December 31, 2005 under the plan was as follows:

Name	Notional Contribution \$	Amount Accrued To December 31, 2005 \$
Duncan K. Davies	47,916	469,521
John A. Horning	35,892	178,259
Sandy M. Fulton	US 28,611	US 35,394
Otto F. Schulte	9,278	86,398
Jack E. Draper	9,342	137,542

### **Termination Arrangements**

In order to encourage the continuity of senior management in the event of a change of control, the Board of Directors has approved agreements with the Named Executive Officers that would provide certain benefits if their employment was terminated without cause within two years following a change of control of the Company. Under these circumstances, a Named Executive Officer would be entitled to compensation equal to his salary plus short-term incentives for a stipulated period following the date of termination. Other employee benefits would be continued during the period. The stipulated period for the Chief Executive Officer is 36 months and 24 months for the other Named Executive Officers.

### **EQUITY COMPENSATION PLAN INFORMATION**

As at December 31, 2005, the Company has reserved the following Class "A" Subordinate Voting shares for possible issuance under its Share Option Plan:

	<b>Number of securities to be issued upon exercise of outstanding options</b>	<b>Weighted average exercise price of outstanding options</b>	<b>Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in the first column)</b>
<b>Share Option Plan – Approved by Shareholders</b>	1,533,500	\$ 4.57	722,700
<b>Additional Grant – Not Approved by Shareholders</b>	250,000	\$ 4.94	—
<b>Total</b>	<b>1,783,500</b>	<b>\$ 4.62</b>	<b>722,700</b>

The additional grant was approved by the Toronto Stock Exchange to facilitate the acquisition of Primex Forest Products Limited in 2001. The terms of the grant are the same as those of the approved Share Option Plan.

### **INTEREST OF INFORMED PERSONS IN MATERIAL TRANSACTIONS**

Except as described in this circular, no director or executive officer of the Company, no proposed nominee for election as director of the Company, no person or company who beneficially owns, directly or indirectly, or exercises control or direction over, voting securities of the Company or a combination of both carrying not less than 10% of the voting rights (a "10% Holder"), no person who is a director or officer of a 10% Holder and no associate or affiliate of any of the foregoing has any material interest, direct or indirect, in any transaction since the commencement of the Company's most recently completed fiscal year or in any proposed transaction which has or would materially affect the Company.

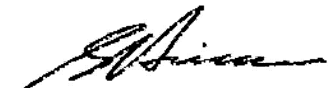
### **CORPORATE GOVERNANCE**

Interfor's governance practices are contained in Schedules A to C of this Information Circular

### **ADDITIONAL INFORMATION**

Additional Information relating to the Company is available on SEDAR at [www.sedar.com](http://www.sedar.com). Financial information is provided in the Company's comparative financial statements and Management Discussion and Analysis for its most recently completed financial year. The Company will provide to any person, upon request to the Secretary of the Company, one copy of its Annual Information Form, its annual and interim financial statements and the Management Discussion and Analysis related thereto, and this Information Circular.

Dated at Vancouver, British Columbia, this 7<sup>th</sup> day of March, 2006.



GERALD J. FRIESEN, Corporate Secretary

## CORPORATE GOVERNANCE PRACTICES

### The Board of Directors

The Board of Directors is responsible for the stewardship of the Company on behalf of the shareholders. The Board has established guidelines on corporate governance issues which set out the manner in which it will discharge its stewardship responsibilities, in some cases with the assistance of committees of the Board. See Disclosure of Corporate Governance Practices on page 19.

The Board is responsible for the overall strategic direction of the Company, and approves the Strategic Plan, the Annual Business Plan and all major developments related to the business of the Company including major debt and equity financing, capital expenditures, and dividend policies. The Board has adopted a Code of Conduct that governs the actions of the Directors, officers and other employees of the Company.

The objective of the Board of Directors is to maximize shareholder value in a manner which is consistent with good corporate citizenship, including maintaining the quality of the natural environment and fair treatment of the Company's employees, customers and suppliers. The Board has delegated the day-to-day management responsibilities to the Company's management and expects them to fulfill this responsibility in a manner consistent with achieving this objective.

During 2005 the Board held four regular quarterly meetings, a two-day strategic planning session, a tour of operations acquired during the year and four special meetings primarily for the purpose of considering acquisitions or capital expenditures.

### The Committees of the Board of Directors

The Corporate Governance Committee is mandated to ensure that the Company develops and implements an effective approach to corporate governance which enables the business and affairs of the Company to be carried out with the objective of enhancing shareholder value. The Committee monitors the size, composition, independence and effectiveness of the Board, its members and committees and makes recommendations with respect to Directors' compensation. The Committee ensures that there is an orientation process for new members and an ongoing education program to increase the members' awareness of the Company's business and the issues it faces. The Chairman of the Board reviews the nomination of new members with the Committee. The Committee may authorize the engagement of outside advisors to assist individual members to fulfill their responsibilities. The Committee met six times in 2005.

The Committee consists of the following independent directors:

H.C. Kalke (Chairman)	R.E. Kadlec	J.P. Sullivan
L.I. Bell	J.A. Milroy	

The Audit Committee is mandated to review annual financial statements and certain other legally required financial documents before they are approved by the Board of Directors. In so doing, the Committee meets independently with the Company's Auditors to review the adequacy of the Company's systems and procedures of internal control and to review the nature, scope and findings of the annual audit. The Committee also ensures that, where appropriate, the Company has an effective strategy to manage its principal risks. The Committee also reviews the quarterly unaudited financial statements and the quarterly Management Discussion and Analysis before they are approved by the Board of Directors. The Committee consults with Company's auditors as part of the review. The Committee recommends the appointment of the external auditor and approves their compensation and any non-audit services provided by the auditor. The Committee met four times in 2005. Additional information relating to the Audit Committee is contained in the Company's Annual Information Form dated as at March 21, 2006.

The Committee consists of the following independent directors:

J.A. Milroy (Chairman)	C.C. Laval III
L.I. Bell	H.C. Kalke

**The Environment and Safety Committee** is mandated to monitor the Company's ongoing commitment to its principles, values and policies regarding environment, health and safety matters. The Committee reviews the information systems, assessment procedures, and, if necessary, remedial procedures to ensure that the Company's operations are in compliance with environmental, health and safety laws and regulations and that there is a pattern of continuous improvement in minimizing any adverse environmental, health and safety impacts. In addition to reporting its findings to the Board of Directors, the Committee has arranged for a report to be included in the Company's Annual Information Form. The Committee met four times in 2005.

The Committee consists of the following independent directors:

C.C. Laval III (Chairman)  
R.E. Kadlec

J.P. Sullivan  
J.A. Milroy

**The Management Resources and Compensation Committee** is mandated to review the strength and depth of the Company's human resources. In so doing, it reviews executive appointments and reassignments in the context of a management succession plan. The Committee reviews and recommends overall compensation, including profit sharing and long-term incentives, at the executive level and monitors the competitiveness of compensation at all levels of management. See Report on Executive Compensation. The Chief Executive Officer provides appropriate information regarding compensation and the development of senior management. The Committee is responsible for ensuring that the objectives and activities of the Chief Executive Officer are in alignment with the expectations of the Board of Directors. The Committee is also mandated to monitor the objectives, form and performance of the Company's pension plans. The Committee met three times in 2005.

The Committee consists of the following directors, the majority of whom are independent and all of whom are independent of management:

L.I. Bell (Chairman)  
H.C. Kalke

W.L. Sauder  
E.L. Sauder

J. Segal

### **Shareholder Communications**

In addition to all regulatory disclosure requirements, Interfor provides briefing sessions, including conference calls following the release of quarterly results, and opportunities for executive interviews or operational tours for shareholders or their representatives at a mutually agreed time. These occasions are well suited to obtain feedback from shareholders. The management of Interfor invites its shareholders to express their suggestions or concerns and will ensure that such information is brought to the attention of the Corporate Governance Committee. All of these communications are subject to the Company's Communication Policy and to securities regulatory requirements including rules relating to selective disclosure.

The annual and quarterly Financial Statements and Management Discussion and Analysis as well as the Annual Information Form and Information Circular are reviewed by a Management Disclosure Committee before the documents are approved by the Board.

### **Code of Conduct**

Interfor's directors, officers and employees are governed by a Code of Conduct, an Environment Policy and a Health and Safety Policy. In 2005, one employee, who was not an officer or director, was disciplined as a result of a breach of the Code of Conduct. The Code of Conduct may be found on SEDAR at [www.sedar.com](http://www.sedar.com).

**NATIONAL INSTRUMENT 58-101 DISCLOSURE OF CORPORATE GOVERNANCE PRACTICES**

**National Instrument 58-101** requires issuers to disclose certain governance practices that they have adopted and **National Policy 58-201** provides guidance as to what is considered best practices in corporate governance. **National policy 58-201** states that there are issues in these guidelines for controlled corporations but these issues have not yet been identified. In the absence of guidance in this area, Interfor, as a controlled corporation, has attempted to meet the current guidelines as closely as reasonably possible as disclosed in the following table.

<b>Guideline</b>	<b>Interfor</b>
<b>1. Board of Directors</b>	
(a) Disclose the identity of directors who are independent.	The following directors have been determined to be independent. Lawrence Bell, Robert Kadlec, Harold Kalke, Claude Laval III, John Milroy, Joseph Segal, and John Sullivan.
(b) Disclose the identity of directors who are not independent, and describe the basis for that determination.	Duncan Davies is the President and Chief Executive Officer of the Company and is the only director who is not independent of management. William Sauder is independent of management but has not been determined to be independent of the Company because of his control position. Lawrence Sauder is related to William Sauder and Richard McKerracher is the president of Sauder Industries Limited and therefore were not considered to be independent.
(c) Disclose whether or not a majority of directors are independent. If a majority of directors are not independent, describe what the board of directors (the board) does to facilitate its exercise of independent judgment in carrying out its responsibilities.	Seven of the eleven current directors are independent and six of the nine nominees as director for the ensuing year are independent.
(d) If a director is presently a director of any other issuer that is a reporting issuer (or the equivalent) in a jurisdiction or a foreign jurisdiction, identify both the director and the other issuer.	The directorships in other reporting issuers held by the nominees as director are listed in the table beginning on page 5.
(e) Disclose whether or not the independent directors hold regularly scheduled meetings at which non-independent directors and members of management are not in attendance. If the independent directors hold such meetings, disclose the number of meetings held since the beginning of the issuer's most recently completed financial year. If the independent directors do not hold such meetings, describe what the board does to facilitate open and candid discussion among its independent directors.	At each of the four regularly scheduled meetings of the Board, there is a separate meeting of directors who are independent of management.  If an issue should arise where the interests of the controlling shareholder could be different from those of other shareholders, William Sauder, Lawrence Sauder and Richard McKerracher would also leave the meeting. There were no such occasions in 2005.

Guideline	Interfor
(f) Disclose whether or not the chair of the board is an independent director. If the board has a chair or lead director who is an independent director, disclose the identity of the independent chair or lead director, and describe his or her role and responsibilities. If the board has neither a chair that is independent nor a lead director that is independent, describe what the board does to provide leadership for its independent directors.	The Chairman of the Board is not independent but he is independent of management. If an issue should arise where the interests of the controlling shareholder could be different from those of other shareholders, the Chairman of the Corporate Governance Committee will chair that portion of the meeting. The Corporate Governance Committee of the Board consists entirely of independent directors and is responsible to monitor the performance and independence of the Board.
(g) Disclose the attendance record of each director for all board meetings held since the beginning of the issuer's most recently completed financial year.	The attendance record of each of the directors is shown in a table on page 8.
<p><b>2. Board Mandate</b></p> <p>Disclose the text of the board's written mandate. If the board does not have a written mandate, describe how the board delineates its role and responsibilities.</p>	The Board's written Mandate is contained in Schedule C.
<p><b>3. Position Descriptions</b></p> <p>(a) Disclose whether or not the board has developed written position descriptions for the chair and the chair of each board committee. If the board has not developed written position descriptions for the chair and/or the chair of each board committee, briefly describe how the board delineates the role and responsibilities of each such position.</p>	The Board has developed written position descriptions for the Chairman of the Board and the Chair for each of the Committees.
<p>(b) Disclose whether or not the board and CEO have developed a written position description for the CEO. If the board and CEO have not developed such a position description, briefly describe how the board delineates the role and responsibilities of the CEO.</p>	The Board and CEO have developed a written position description which is reviewed annually. In addition, the Management Resources and Compensation Committee annually reviews a set of goals and objectives for the CEO and his performance against the goals and objectives for the previous year.
<p><b>4. Orientation and Continuing Education</b></p> <p>(a) Briefly describe what measures the board takes to orient new directors regarding</p> <ul style="list-style-type: none"> <li>(i) the role of the board, its committees and its directors, and</li> <li>(ii) the nature and operation of the issuer's business.</li> </ul>	<p>Each new director is provided with a handbook that contains the governance practices of the Company including the terms of reference for the Board, members of the Board and each of the Committees.</p> <p>New directors are also provided with an overview of the Company's management, strategic plan, risk management plan, and financial position and are provided with a tour of typical manufacturing and forestry operations.</p>

Guideline	Interfor
(b) Briefly describe what measures, if any, the board takes to provide continuing education for its directors. If the board does not provide continuing education, describe how the board ensures that its directors maintain the skill and knowledge necessary to meet their obligations as directors.	On an on-going basis, the committees of the Board and management update the directors on industry developments, forest policy changes and regulatory changes pertaining to public companies. Tours are provided from time to time with a focus on capital expenditures, safety or the environment. The Board participates annually in an extensive strategic planning session.
<p><b>5. Ethical Business Conduct</b></p> <p>(a) Disclose whether or not the board has adopted a written code for the directors, officers and employees. If the board has adopted a written code:</p> <p>(i) disclose how a person or company may obtain a copy of the code;</p> <p>(ii) describe how the board monitors compliance with its code, or if the board does not monitor compliance, explain whether and how the board satisfies itself regarding compliance with its code; and</p> <p>(iii) provide a cross-reference to any material change report filed since the beginning of the issuer's most recently completed financial year that pertains to any conduct of a director or executive officer that constitutes a departure from the code.</p>	<p>The Board has adopted a written code of conduct for directors, officers and employees of the Company.</p> <p>The code is available to its directors and employees in a policy manual and on the Company's intranet site. For other interested parties it is available on SEDAR and the Company's web site.</p> <p>Management is required to report violations of the code and any actions it has taken to the Corporate Governance Committee.</p> <p>There were no violations of the code in 2005 with respect to any directors or executive officers.</p>
(b) Describe any steps the board takes to ensure directors exercise independent judgment in considering transactions and agreements in respect of which a director or executive officer has a material interest.	If there is a conflict of interest or the perception of a conflict of interest, executive officers or directors with a material interest do not participate in the negotiations or approvals pertaining to such a matter. In the case of decisions of the Board, any Director with a material interest in a matter will abstain from voting.
(c) Describe any other steps the board takes to encourage and promote a culture of ethical business conduct.	The Board has established the Environment and Safety Committee to monitor the Company policy of continuous improvement in standards and expectations for protecting the health and safety of the employees and the environment in which they work.
<p><b>6. Nomination of Directors</b></p> <p>(a) Describe the process by which the board identifies new candidates for board nomination.</p>	The Chairman of the Board in conjunction with the Corporate Governance Committee recommends new candidates for Board nomination.

Guideline	Interfor
(b) Disclose whether or not the board has a nominating committee composed entirely of independent directors. If the board does not have a nominating committee composed entirely of independent directors, describe what steps the board takes to encourage an objective nomination process.	The Corporate Governance Committee is composed entirely of independent directors, but in the process of director nominations, works together with the Chairman of the Board who is also the controlling shareholder and who will ultimately elect the majority of the Board. The Committee, together with an advisor, has established an assessment of the skills and experience represented on the Board to assist in establishing a succession plan for the orderly replacement of retiring directors.
(c) If the board has a nominating committee, describe the responsibilities, powers and operation of the nominating committee.	The Corporate Governance Committee has a role in the nomination process. The Committee is described on page 17.
<b>7. Compensation</b>	
(a) Describe the process by which the board determines the compensation for the issuer's directors and officers.	The Corporate Governance Committee is responsible for recommending the compensation of the Chairman and the directors. The Committee uses comparative information to ensure that the compensation is competitive considering the scope of the responsibilities. The Management Resources and Compensation Committee is responsible for recommending the compensation of executive officers. This process is described in their report beginning on page 9.
(b) Disclose whether or not the board has a compensation committee composed entirely of independent directors. If the board does not have a compensation committee composed entirely of independent directors, describe what steps the board takes to ensure an objective process for determining such compensation.	The majority of the members of the Management Resources and Compensation Committee are independent and those members who are not, are independent of management.
(c) If the board has a compensation committee, describe the responsibilities, powers and operation of the compensation committee.	The Management Resources and Compensation Committee is described on page 18.
(d) If a compensation consultant or advisor has, at any time since the beginning of the issuer's most recently completed financial year, been retained to assist in determining compensation for any of the issuer's directors and officers, disclose the identity of the consultant or advisor and briefly summarize the mandate for which they have been retained. If the consultant or advisor has been retained to perform any other work for the issuer, state that fact and briefly describe the nature of the work.	Hewitt and Associates and Hay Group Limited were retained to provide advice on the Company's short-term incentive plan. Hewitt and Associates is also the Company's pension actuary and Hay Group Limited provided comparative compensation information.

Guideline	Interfor
<p><b>8. Other Board Committees</b></p> <p>If the board has standing committees other than the audit, compensation and nominating committees, identify the committees and describe their function.</p>	<p>The Company has a Corporate Governance Committee and an Environment and Safety Committee as described on pages 17 and 18.</p>
<p><b>9. Assessments</b></p> <p>Disclose whether or not the board, its committees and individual directors are regularly assessed with respect to their effectiveness and contribution. If assessments are regularly conducted, describe the process used for the assessments. If assessments are not regularly conducted, describe how the board satisfies itself that the board, its committees, and its individual directors are performing effectively.</p>	<p>Every second year, a comprehensive questionnaire is completed by each director other than the Chairman and the CEO which assesses the effectiveness of the Board and its committees. In the following year a follow-up questionnaire is completed to assess the progress made in areas where the questionnaire indicated the Board or a committee could improve its effectiveness.</p> <p>The Chairman of the Board discusses with individual directors their participation in the activities of the Board or the committees.</p>

## MANDATE OF THE BOARD

### *Objective of the Board*

To enhance shareholder value.

### *General Duty of the Board*

To promote a strong, viable and competitive company operating with honesty and integrity and to supervise the management of the affairs and business of the Company.

### Stewardship Responsibilities of the Board

1. To establish an effective process of corporate governance including principles and guidelines specific to the Company.
2. To ensure that management has a strategic planning process in place and approve the strategies that evolve from this process.
3. To identify the principal risks facing the company and ensure that systems exist to manage these risks.
4. To appoint, assess and compensate senior management (particularly the CEO) and approve a plan for their succession and training.
5. To ensure that management has an effective two-way communication policy with shareholders, other stakeholders and the public.
6. To ensure that effective internal controls and information systems exist to provide reliable historical and forward-looking information with respect to financial matters, environmental matters and other regulatory compliance.
7. To ensure the integrity of the Company's reported financial performance.
8. To satisfy itself of the integrity of the CEO and other executive officers and to ensure that a culture of integrity exists throughout the Company.

The Board may delegate any of its responsibilities to a Committee.