

CANFOR PULP LIMITED PARTNERSHIP

- and -

CANADIAN FOREST PRODUCTS LTD.

PARTNERSHIP SERVICES AGREEMENT

July 1, 2006

Stikeman Elliott LLP

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PARTNERSHIP SERVICES AGREEMENT

THIS AGREEMENT is made as of July 1, 2006,

BETWEEN:

CANFOR PULP LIMITED PARTNERSHIP, a limited partnership formed pursuant to the laws of the Province of Manitoba,

(the "**Partnership**")

- and -

CANADIAN FOREST PRODUCTS LTD., a corporation amalgamated under the laws of the Province of British Columbia,

(the "**Service Provider**")

RECITALS:

- A. The Service Provider and the Partnership are parties to the Acquisition Agreement pursuant to which the Service Provider has agreed to transfer the assets of the Pulp Business to the Partnership.
- B. The Partnership and the Service Provider have agreed to enter this Agreement to set out the terms upon which the Service Provider will provide certain business and administrative services to the Partnership.

NOW THEREFORE THIS AGREEMENT WITNESSES THAT, in consideration of the mutual covenants and agreements hereinafter set forth and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto covenant and agree as follows:

ARTICLE 1 INTERPRETATION

1.1 Definitions

In this Agreement, including the recitals, unless there is something in the subject matter inconsistent therewith, the following terms will have the following meanings and grammatical variations of those terms will have corresponding meanings:

"Acquisition Agreement" means the acquisition agreement dated July 1, 2006 between the Partnership and the Service Provider respecting the sale of the assets of the Pulp Business by the Service Provider to the Partnership;

"Affiliate" of any Person means, at the time such determination is being made, any other Person controlling, controlled by or under common control with such first Person, in each case, whether directly or indirectly, and, with respect to the Service Provider, means all such Affiliates other than the Partnership and the General Partner;

"Agreement" means this agreement including all schedules, and all amendments and restatements, reference to **"Article"**, **"Section"**, or **"Subsection"** means the specified article, section or subsection of this agreement and reference to **"Schedules"** means the schedules attached to this agreement;

"Business Day" means a day, other than a Saturday, Sunday or statutory holiday, when banks are generally open in Vancouver, British Columbia for the transaction of banking business;

"Claims" has the meaning given to that term in Section 5.1;

"Confidential Information" means, in respect of either the Partnership or the Service Provider, information developed or used by such Person in connection with its business, whether disclosed prior to or after the date of this Agreement, including such Person's customer information, financial information, marketing information, research and development information and information pertaining to business opportunities;

"control" and any derivation thereof means the possession, directly or indirectly, of the power to direct the management and policies of a Person whether through the ownership of voting securities or otherwise;

"Expenses" means all reasonable, direct and indirect costs and expenses and third party fees, costs and expenses, including travel and accommodation costs, courier and postage costs and printing and copying costs, incurred by the Service Provider in providing the Services, in each case:

- (a) without profit or mark-up;
- (b) without duplication; and
- (c) calculated for each Service in accordance with any method specified in Schedule A for that Service;

"Expert" has the meaning given to that term in Section 4.4;

"Force Majeure" means any cause beyond the reasonable control of a Party including acts of God, acts of nature, acts of Governmental Authorities, including the enactment of Laws, fire, flood, storm, war, insurrection, riot or other civil unrest, strikes, lockouts or other labour or industrial disturbances and accidents, nuclear or other explosion, radioactive or biological or chemical contamination, disease, epidemic, quarantine restriction, electrical or power outages or shortages, blockade,

sabotage, seizure, computer failure, equipment breakdowns, inability to obtain sufficient labour, materials, fuel, transportation or utilities. A Force Majeure event or cause shall not include any event or cause:

- (d) that is a reasonably foreseeable consequence of the negligence or deliberate act of the Party in breach;
- (e) that could have been avoided through the exercise of reasonable diligence on the part of the Party in breach or any person engaged by such Party; or
- (f) resulting from a lack of financial resources;

"Fund" means Canfor Pulp Income Fund, an unincorporated trust established under the laws of the Province of Ontario;

"General Partner" means Canfor Pulp Holding Inc., a corporation incorporated under the laws of Canada;

"Governmental Authority" means any government, regulatory authority, governmental department, agency, agent, stock exchange, commission, bureau, official, minister, Crown corporation, court, body, board, tribunal or dispute settlement panel or other law, rule or regulation-making entity:

- (a) having or purporting to have jurisdiction on behalf of any nation, province, territory, state or other geographic or political subdivision thereof; or
- (b) exercising, or entitled or purporting to exercise any administrative, executive, judicial, legislative, policy, regulatory or taxing authority or power;

"Indemnified Party" has the meaning given to that term in Section 5.1;

"Kraft Paper" means bleached or unbleached paper produced from kraft pulp;

"Laws" means all applicable laws, including common law, by-laws, rules, statutes, regulations and legally binding decisions, orders, ordinances, protocols, codes, guidelines, policies, notices, directions, instructions and authorizations and judgements or other legally binding requirements of any Governmental Authority;

"Mills" means the Intercontinental Pulp Mill, the Northwood Pulp Mill and the Prince George Pulp and Paper Mill located at Prince George, British Columbia;

"NBSK Pulp" means northern bleached softwood kraft pulp;

"Notice" has the meaning given to that term in Section 8.2;

"Parties" means the Partnership and the Service Provider and **"Party"** means either one of them as the context indicates;

"Person" means any individual, sole proprietorship, partnership, firm, entity, unincorporated association, unincorporated syndicate, unincorporated organization, trust, body corporate, Governmental Authority, and where the context requires any of the foregoing when they are acting as trustee, executor, administrator or other legal representative;

"Prime Rate" means the rate of interest determined from time to time by the Royal Bank of Canada at its main branch in Vancouver, British Columbia as its prime rate of interest for Canadian dollar loans made in Canada;

"Pulp Business" means the business of owning and operating the Mills and the marketing of NBSK Pulp and Kraft Paper produced at the Mills, the assets of which were acquired by the Partnership pursuant to the Acquisition Agreement;

"Services" means the services more particularly described in Schedule A;

"Subsidiary" of any Person means, at the time such determination is being made, any Affiliate of such Person that is controlled, directly or indirectly, by such Person; and

"Trust" means Canfor Pulp Trust, an unincorporated trust established under the laws of the Province of Ontario.

1.2 Certain Rules of Interpretation

In this Agreement:

- (a) **Time.** Time is of the essence in the performance of the Parties' respective obligations;
- (b) **Currency.** Unless otherwise specified, all references to money amounts are to Canadian currency;
- (c) **Headings.** Descriptive headings of Articles and Sections are inserted solely for convenience of reference and are not intended as complete or accurate descriptions of the content of those Articles or Sections;
- (d) **Gender and Number.** In this Agreement, unless the context otherwise requires, words importing the singular include the plural and *vice versa* and words importing gender include all genders;
- (e) **Accounting Principles.** In the absence of a specific provision in this Agreement providing otherwise, all financial and accounting determinations and calculations to be made pursuant to or in connection with this Agreement and all records to be maintained in accordance with this Agreement shall be made and maintained in accordance with generally accepted accounting principles applied in Canada on a consistent basis;

- (f) **Approval or Consent.** Whenever a provision of this Agreement requires an approval or consent by a Party to this Agreement and written notification of that approval or consent is not delivered within the applicable time limit, then, unless otherwise specified, the Party whose consent or approval is required will be conclusively deemed to have withheld its approval or consent;
- (g) **Business Day.** Whenever any payment to be made or action to be taken under this Agreement is required to be made or taken on a day other than a Business Day, then that payment will be made or action taken on the next succeeding day that is a Business Day;
- (h) **Time Periods.** Unless otherwise specified, time periods within or following which any payment is to be made or act is to be done shall be calculated by excluding the day on which the period commences and including the day on which the period ends and by extending the period to the next Business Day following if the last day of the period is not a Business Day; and
- (i) **Inclusion.** Where the words "including" or "includes" appear in this Agreement, they mean "including (or includes) without limitation".

1.3 Entire Agreement

This Agreement, together with the Acquisition Agreement and other agreements and documents to be delivered pursuant to the Acquisition Agreement, constitutes the entire agreement between the Parties pertaining to the subject matter of this Agreement and supersedes all prior agreements, understandings, negotiations and discussions, whether oral or written, of the Parties, and there are no warranties, representations or other agreements between the Parties in connection with the subject matter of this Agreement except as specifically set forth in this Agreement or in those other agreements. No supplement, modification or waiver or termination of this Agreement will be binding unless executed in writing by the Party to be bound thereby.

1.4 Governing Law

This Agreement will be construed in accordance with the laws of the Province of British Columbia and the laws of Canada applicable therein and will be treated, in all respects, as an British Columbia contract.

1.5 Schedules

The schedule to this Agreement, as listed below, is an integral part of this Agreement:

Schedule A Services

ARTICLE 2 SUPPLY OF SERVICES

2.1 Engagement

The Partnership hereby engages the Service Provider and the Service Provider hereby accepts the engagement to provide the Services to the Partnership in accordance with the terms, conditions and limitations herein contained.

ARTICLE 3 EXPENSES

3.1 Reimbursement

The Partnership shall reimburse the Service Provider for all Expenses.

3.2 Invoices and Payment

Within 20 days of the end of each month in the term of this Agreement, the Service Provider will invoice the Partnership for the amount owing for Expenses in respect of Services rendered during each such month. Upon request of the Partnership, the Service Provider will provide an itemized statement setting out the amount of the Expenses incurred with respect to each of the Services provided in any month. The Partnership will pay the full amount of any invoice within ten days following receipt thereof, unless the Partnership, in good faith, disputes the amount of any invoice, in which case, payment of the amount in dispute will not be due until 10 days after the resolution of that dispute.

3.3 Shared Expenses

If an Expense is shared between the Partnership and the Service Provider or its Affiliates, the Service Provider will attempt to obtain a breakdown from the supplier of the costs attributable to the Partnership. If such breakdown is not reasonably obtainable, the Service Provider will allocate the Expense on a reasonable basis as between the Partnership and the Service Provider or its Affiliates in a manner consistent with the Service Provider's internal allocation practices from time to time and will provide details of any allocation of an Expense to the Partnership at the time it delivers an invoice which includes that Expense.

3.4 Sales Taxes

The Partnership will pay all federal and provincial sales tax, goods and services tax, and all other like taxes payable in respect of the Services provided pursuant to this Agreement.

3.5 Failure to Pay when Due

Any amount payable to the Service Provider hereunder and which is not remitted to the Service Provider when so due will remain due (whether on demand or otherwise) and interest will accrue on overdue amounts (both before and after judgment), at a rate equal to

the Prime Rate plus 2% per annum from the date payment is due until the date payment is made.

3.6 Records

The Service Provider shall maintain accurate and complete accounting and other records of all costs incurred by it for the purpose of calculating the Expenses. The Service Provider will provide the Partnership and its designated agents with access to the records of the Service Provider at all reasonable times during normal business hours and the Partnership will have the right to conduct audits of those records at its sole cost and expense. All records will be preserved in accordance with the Service Provider's record retention policies.

3.7 Tax Status of Payments

If any payment made by the Partnership pursuant to this Agreement, including any amounts payable pursuant to Section 6.1 hereof, is deemed by the *Excise Tax Act* (Canada) to include goods and services tax, or is deemed by any applicable provincial or territorial legislation to include a similar value added or multi-staged tax, the amount of such payment shall be increased accordingly.

ARTICLE 4 ACTIVITIES OF THE SERVICE PROVIDER

4.1 Personnel and Cooperation

- (a) The Service Provider will make available to the Partnership such personnel of the Service Provider and its Affiliates as may be necessary, as determined by the Service Provider, acting reasonably, in consultation with the Partnership, to deliver the Services. Such personnel will at all times remain employees of, and under the direction of, the Service Provider.
- (b) The Partnership shall co-operate fully with the Service Provider, and the Service Provider and its employees shall co-operate fully with the Partnership, the General Partner and the employees of the General Partner in the provision of the Services.
- (c) Individuals providing Services under this Agreement shall in no event be considered employees of the Partnership or the General Partner. The costs and expenses of all such individuals, whether employees of the Service Provider or consultants to or agents or representatives of the Service Provider, shall be the Service Provider's responsibility, including all compensation, statutory deductions and remittances. The obligation to provide, and the costs of providing, reasonable notice to any such individuals in the event of the termination of their employment or retainer, or payment in lieu of such notice, or any other severance, termination or retirement payment, including payment of employment benefits, shall be exclusively that of the Service Provider.

4.2 Covenants of the Service Provider

The Service Provider shall:

- (a) perform all Services and obligations at all times in compliance with applicable Laws; and
- (b) comply with all lawful instructions of the Partnership in relation to the performance of the Services.

4.3 Standard of Care and Delegation

- (a) In exercising its powers and discharging its duties under this Agreement, the Service Provider will exercise that degree of care, diligence and skill that a reasonably prudent supplier having responsibilities of a similar nature would exercise in comparable circumstances.
- (b) The Service Provider may employ or engage such other Persons, including Experts as may be necessary to the proper discharge of its duties. To the extent possible, the Service Provider shall arrange for such Persons to invoice the Partnership directly and otherwise the expenses of such Persons in respect of Services rendered hereunder shall be reimbursed by the Partnership in accordance with Article 3, provided that: (i) the Service Provider shall continue to be responsible for the provision of Services hereunder; and (ii) such third party retainer will not relieve the Service Provider of any of its obligations under this Agreement.

4.4 Reliance

In carrying out its duties hereunder, provided the Service Provider has acted in accordance with the standard of care set out in Section 4.3(a) of this Agreement, the Service Provider and its delegates shall be entitled to rely on statements, the opinion or advice of, or information provided by any solicitor, auditor, valuer, engineer, surveyor, appraiser or other expert (each, an "**Expert**") selected by the Service Provider, provided that:

- (a) the Service Provider exercised reasonable care and diligence in selecting such Expert; and
- (b) the statements, opinion, advice or information relate to matters within the scope of the Expert's field of expertise.

4.5 No Liability

The Service Provider shall not be liable, answerable or accountable to:

- (a) the Partnership or any partner in the Partnership;
- (b) the Fund, its trustees, or any holders of units of the Fund; or

- (c) Trust, its trustees or any holders of units of the Trust

for any loss or damage resulting from, incidental to or relating to the provision of Services, including any exercise or refusal to exercise a discretion or its refusal to exercise a discretion, any mistake or error of judgment or any act or omission believed by the Service Provider to be within the scope of authority conferred on it by this Agreement, unless such loss or damage resulted from the gross negligence or wilful misconduct of the Service Provider in performing its obligations hereunder.

4.6 Access Rights

The Partnership shall provide the Service Provider and its employees, agents and contractors with continued and uninterrupted access during normal business hours to the property, assets and personnel of the Partnership and the General Partner, including documents and records, as is necessary to permit the Service Provider and any Persons retained by the Service Provider to provide or assist in the provision of the Services, to provide the Services and generally to be able to perform its obligations under this Agreement.

ARTICLE 5 INDEMNIFICATION; CONFIDENTIALITY

5.1 Indemnification by the Partnership

The Partnership shall indemnify and save harmless the Service Provider, its Affiliates and any Person who is serving or shall have served as a director, officer or employee of the Service Provider or its Affiliates (each an "**Indemnified Party**") from and against all losses, claims, damages, liabilities, obligations, costs and expenses (including judgements, fines, penalties, amounts paid in settlement and counsel and accountants' fees) in respect of any proceedings brought by a third party of any kind or nature whatsoever (collectively, "**Claims**") incurred by, borne by or asserted against any of such Indemnified Parties in any way arising from or related in any manner to this Agreement or the provision of the Services, unless such Claims arise from the gross negligence or wilful misconduct of any such Indemnified Party. The foregoing right of indemnification shall not be exclusive of any other rights to which the Service Provider or any other Person referred to in this Section 5.1 may be entitled as a matter of law or equity or which may be lawfully granted to such person.

5.2 Confidentiality

Each of the Partnership and the Service Provider will and will cause their respective directors, officers, employees and agents to, keep all Confidential Information of the other party disclosed to it under this Agreement, or in carrying out the terms of this Agreement, strictly confidential and will not use or disclose such Confidential Information to any person except to the extent:

- (a) such use or disclosure is expressly permitted or contemplated pursuant to this Agreement;

- (b) such use or disclosure is strictly necessary to enable the recipient of such Confidential Information to exercise its rights and perform its obligations under this Agreement;
- (c) such use or disclosure is required by applicable law;
- (d) such information is in the public domain other than as a result of a breach of this Agreement; or
- (e) such use or disclosure is required pursuant to a final order or judgment of a court of competent jurisdiction and in such case the parties will cooperate with one another to obtain an appropriate protective order or other reliable assurance that the confidentiality of such Confidential Information will be maintained.

ARTICLE 6 DISPUTE RESOLUTION

6.1 Arbitration

All disputes arising out of or in connection with this Agreement, or in respect of any legal relationship associated therewith or derived therefrom, shall be referred to and finally resolved by arbitration administered by the British Columbia International Commercial Arbitration Centre pursuant to its Rules. The place of arbitration shall be Vancouver, British Columbia.

ARTICLE 7 TERM AND TERMINATION

7.1 Term

This Agreement shall continue until it is terminated in accordance with Section 7.2 or Section 7.3.

7.2 Termination by the Service Provider

The Service Provider may terminate this Agreement:

- (a) with respect to all or certain of the Services provided by the Service Provider hereunder, at any time and from time to time by giving at least 12 months prior Notice of termination to the Partnership and, for greater certainty, each Service may be terminated independently of any other Service and the termination of less than all of the Services shall not constitute a termination of this Agreement;
- (b) immediately, without prior Notice, in the event of a material breach by the Partnership of its obligations under this Agreement which is not cured within ninety (90) days of receipt of Notice of that breach from the Service Provider; or

- (c) immediately, without prior Notice, if the Partnership institutes or consents to the institution against it of bankruptcy, insolvency or similar proceedings, or the Partnership makes a general assignment for the benefit of creditors, or a liquidator, trustee in bankruptcy, receiver or receiver manager is appointed over a substantial or material part of the Partnership's assets.

7.3 Termination by the Partnership

The Partnership may terminate this Agreement:

- (a) with respect to all or certain of the Services provided by the Service Provider hereunder, at any time and from time to time by giving at least 12 months prior Notice of termination to the Service Provider and, for greater certainty, each Service may be terminated independently of any other Service and the termination of less than all of the Services shall not constitute a termination of this Agreement;
- (b) immediately, without prior Notice, in the event of a material breach by the Service Provider of its obligations under this Agreement which is not cured within ninety (90) days of receipt of Notice of that breach from the Partnership; or
- (c) immediately, without prior Notice, if the Service Provider institutes or consents to the institution against it of bankruptcy, insolvency or similar proceedings, or the Service Provider makes a general assignment for the benefit of creditors, or a liquidator, trustee in bankruptcy, receiver or receiver manager is appointed over a substantial or material part of the Service Provider's assets.

7.4 Survival of Certain Obligations

The provisions of Articles 5 and 6 shall survive the termination of this Agreement.

ARTICLE 8 GENERAL

8.1 Force Majeure

Notwithstanding any other provision of this Agreement, if by reason of Force Majeure any Party is unable, wholly or in part, to perform or comply with its obligations under this Agreement, that Party shall be relieved of liability and will suffer no prejudice for failing to perform or comply, or for delaying performance or compliance, during the continuance and to the extent of the inability so caused by the Force Majeure, provided that the Party claiming Force Majeure gives the other Party prompt Notice and reasonably full particulars of that Force Majeure, including, where possible, advance notice of such event. The Party claiming Force Majeure:

- (a) will only be relieved from performance or compliance after receipt of Notice by the other Party;
- (b) will use all reasonable commercial efforts to remedy the situation and remove, so far as possible and with reasonable dispatch, the cause of its inability to perform or comply, provided that there will be no obligation on it to settle labour disputes or refrain from taking steps to lock out employees illegally entitled to do so; and
- (c) will give prompt Notice to the other Party of the cessation of the event of Force Majeure.

8.2 Notices

Any notice or other writing required or permitted to be given under this Agreement or for the purposes of this Agreement (a "**Notice**") shall be in writing and shall be sufficiently given if delivered, or if sent by pre-paid courier or if transmitted by facsimile, e-mail (with receipt noted) or other form of recorded communication tested prior to transmission to such Party:

- (a) in the case of a Notice to the Service Provider at:

Canadian Forest Products Ltd.
100 – 1700 West 75th Avenue
Vancouver, B.C. V6P 6G2

Attention: Corporate Secretary
Facsimile: (604) 661-5435

- (b) in the case of a Notice to the Partnership at:

Canfor Pulp Limited Partnership
100 – 1700 West 75th Avenue
Vancouver, B.C. V6P 6G2

Attention: Chief Financial Officer
Facsimile: (604) 661-5226

or at such other address as the Party to whom such Notice is to be given shall have last notified the Party giving the same in the manner provided in this Section 8.2. Any Notice delivered to the Party to whom it is addressed as provided above will be deemed to have been given and received on the day it is so delivered at that address, provided that if that day is not a Business Day then the Notice shall be deemed to have been given and received on the next Business Day.

Any Notice sent by prepaid courier will be deemed to have been given and received on the second Business Day following the date of its sending. Any Notice transmitted by facsimile,

email or other form of recorded communication will be deemed given and received on the first Business Day after its transmission.

8.3 Successor and Assigns

- (a) No Party shall transfer or assign this Agreement or any of its rights or obligations hereunder except with the prior written consent of the other Party or as provided in this Section 8.3;
- (b) Either Party may assign this Agreement as security for any secured obligation of such Party;
- (c) The Partnership shall be required to transfer or assign this Agreement to a successor to all or substantially all of its business;
- (d) The Service Provider may, at any time, upon prior written Notice to the Partnership, transfer or assign this Agreement to a successor to all or a substantial portion of its business; and
- (e) This Agreement will enure to the benefit of and be binding upon the parties and their respective successors and permitted assigns.

8.4 Further Assurances

The Parties will, with reasonable diligence, do all reasonable things and provide all reasonable assurances as may be required to facilitate the transactions contemplated by this Agreement, and each Party will provide all further documents or instruments required by any other Party as may be reasonably necessary or desirable to effect the purpose of this Agreement and carry out its provisions:

8.5 Relationship of Parties

The Parties are not and shall not be deemed to be partners or joint venturers and nothing herein shall be construed so as to impose any liability as such on any of them. The Parties agree that the Service Provider shall perform its duties and obligations under this Agreement as an independent contractor. In no circumstances shall the Service Provider be, or be deemed to be, a fiduciary, trustee or agent for any Person, whether or not a Party, in connection with the discharge by the Service Provider of its duties and obligations under this Agreement.

8.6 Invalidity of Provisions

Each provision of this Agreement is distinct and severable and a declaration of invalidity, illegality or unenforceability of any provision or part by a court of competent jurisdiction will not affect the validity, legality or enforceability of any other provision. Any invalid, illegal or unenforceable provision will to the extent permitted by law, be severed and replaced by a valid provision which comes closest to the intention underlying the invalid, illegal or unenforceable provision by mutual agreement of the Parties.

8.7 Limited Liability of the Limited Partners of the Partnership

The Parties acknowledge that the Partnership is a limited partnership formed under the laws of the Province of Manitoba, a limited partner of which is liable for any liabilities or losses of the Partnership only to the extent of the amount that such limited partner has contributed, or agreed to contribute, to the capital of the Partnership and such limited partner's pro rata share of any undistributed income. The Parties further acknowledge that the General Partner is the sole general partner of the Service Provider.

8.8 Counterparts

This Agreement may be signed in counterparts and each counterpart constitutes an original document and the counterparts, taken together constitute one and the same instrument. Delivery of counterparts may be made by facsimile transmission.

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IN WITNESS OF WHICH the Parties have executed this Agreement.

CANFOR PULP LIMITED PARTNERSHIP,
by its General Partner, **CANFOR PULP**
HOLDING INC.

By: "Thomas Sitar"
Name: Thomas Sitar
Title: Chief Financial Officer and
Corporate Secretary

CANADIAN FOREST PRODUCTS LTD.

By: "David Calabrigo"
Name: David Calabrigo
Title: Vice-President, Corporate
Development, General Counsel and
Corporate Secretary