



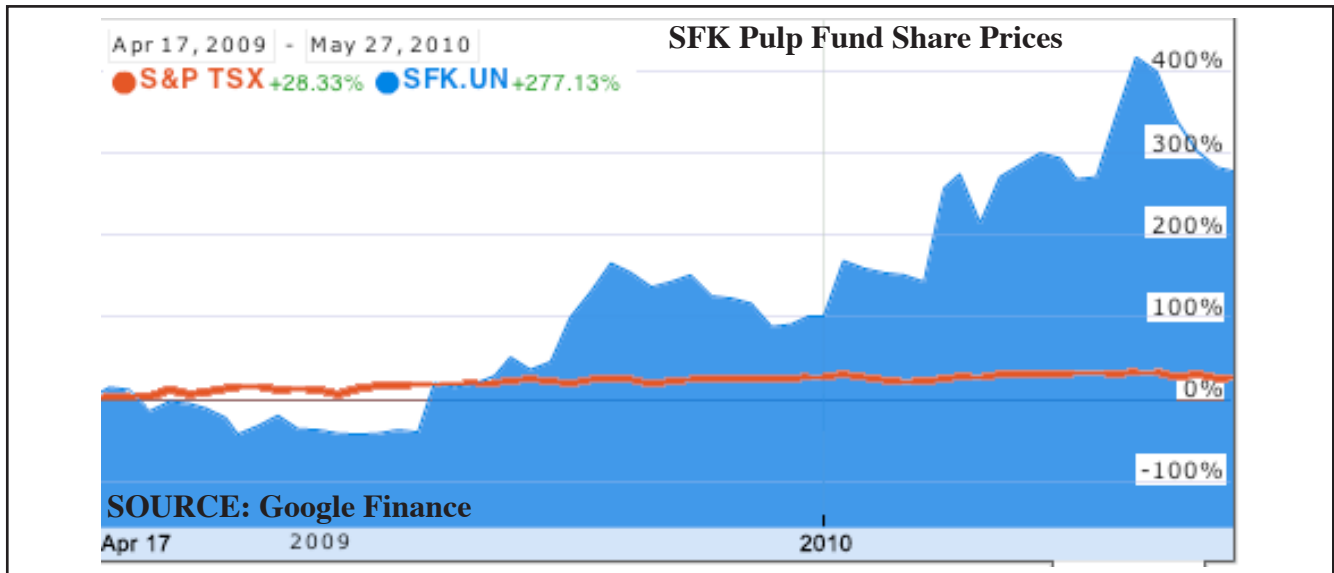
MADISON'S TIMBER PREVIEW

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Since *Madison's* first wrote about SFK Pulp Fund, in the April 24, 2009 issue of your *Timber Preview*, that company has suffered only one bit of bad news. A glance at the company's share prices make *Madison's* feel somewhat prophetic.

"[SFK is] a good example of a company that, despite taking a hit to the bottom line of late, will likely start doing quite well in the not-too-distant future."



There was a mass evacuation over the weekend of May 8 in Marion County, WV, after a chemical leaked from the SFK Pulp Mill in Fairmont. Officials believed hydrogen sulfide, which can sometimes smell like rotten eggs, was leaking from the plant. SFK says their safety measures worked as they should, with the chemical storage room immediately locked down.

Apart from that, the company has done remarkably well despite tumultuous economic conditions globally, going so far as to announce an agreement March 25 of conversion from an income trust structure to a corporation, called Fibrek Inc.

SFK shares rose 277 per cent in one year, from \$0.40 on April 17, 2009 to \$0.97 on June 3, 2010. Share prices were up 364 per cent on April 23, 2010, to \$1.42, before falling slightly. This improvement is far above the S&P average, up 28.5 per cent over the same time period. SFK share prices now, however, are nowhere near the high of \$11.21 on October 25, 2002.

What has the SFK, now called Fibrek, been doing to garner such glowing results?

The company took advantage of the solid reasons for converting from an income trust to a corporation: a change in Canadian tax laws. On October 31, 2006, the specified investment flow-through rules changed the manner in which publicly traded income trusts and their distributions are taxed. The government provided a four year transition period, thus companies in Canada are not subject to the new rules until 2011.

Details of the SFK conversion are; the Units held by unitholders will be transferred to Fibrek Inc. in consideration for Common Shares on the basis of one Common Share for each Unit so transferred. The

holders of the Fund's seven per cent debentures will be entitled to receive Common Shares rather than Units, on the conversion basis of \$4.80 per Unit. On May 19 unitholders approved the deal, on May 27 the company, now officially known as Fibrek, announced on Canada News Wire that it had filed a preliminary short form prospectus to raise \$40 million in a rights offering. Under the offering, bondholder Fairfax Financial Holdings Ltd. agreed to purchase all of the shares not otherwise purchased under the rights offering. The offering is part of a series of transactions to refinance Fibrek's existing revolving credit facility maturing on October 30.

As if all was not going well enough for SFK, in addition to \$20.9 million in Green Transformation funding announced on March 29, the Québec société générale de financement announced May 13 an investment of US\$75 million to help the company improve its balance sheet, but mostly, to ensure its long-term development. The transaction, which remains subject to certain loan conditions, will take the form of a five-year secured term loan.

All this in the face of 1Q 2010 losses of \$1.2 million, which boosted the company's consolidated sales to \$138.1 million, an increase of \$59.5 million, compared to sales of \$78.6 million in the 1Q 2009. This increase is mainly due to higher pulp prices as well as a higher sales volumes, which was partially offset by an unfavourable exchange rate. The \$1.2 million net loss for the quarter compared with a net loss of \$15.1 million for 1Q 2009. Total sales volume rose to 187,151 tonnes, compared to 108,792 tonnes in 1Q 2009.

Commenting on the 1Q results, Pierre Gabriel Côté, President and CEO, said, "I am pleased to report a major improvement in our results in the 1Q 2010. Improved results were due to not only favourable market conditions, increased pulp production and higher pulp prices, but also to our cost reduction program. On the operational front, we took no market-related downtime in the 1Q 2010."

NBSK pulp prices are currently hovering at just below the US\$1,000 per tonne predicted at the beginning of this year by many analysts, selling for US\$984 per tonne in the US this week according to FOEX.fi. This is double the level of the recession low in late 2008.

"The St. Félicien mill is working at full capacity and is in top shape along with our two smaller US mills," Côté said, brushing off the 1Q 2010 losses.

SFK's big softwood pulp mill at Saint-Félicien, QC, a heavy consumer of sawmill chips from the Saguenay area, exports to North American and European papermaking customers. Its other mills, one in West Virginia and the other in Michigan, produce pulp from recycled fibre.

According to analysts at Deutsche Bank, the latest price NBSK hike is driven by a fall in pulp producer inventories, by one day of supply, to 25 days. In North America market conditions are still fairly tight, driven by strong demand, reduced supply from Chile, and spring maintenance downtime. The pending restart of close to two million tonnes of market pulp capacity in Canada and China suggest that pulp prices may be reaching a new-term peak, says the May 30 edition of Deutsche Bank's Weekly Wrap-Up.

Trading of SFK seems to be halted on the Toronto Stock Exchange. When the new corporation, Fibrek, emerges, it will likely be one to watch in the future.

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