

Brascade Corporation

STOCK SYMBOL: BCA.PR.A (TSX)

Q2/2007 INTERIM REPORT TO SHAREHOLDERS **FOR THE SIX MONTHS ENDED JUNE 30, 2007**

To The Shareholders:

Brascade Corporation reported a net loss for the six months ended June 30, 2007 of \$71.6 million, compared to a net income of \$6.0 million for the same period last year. The results for the first half of 2007 reflect a \$35.0 million net loss from the company's forest product investments and \$25.3 million of unrealized foreign exchange losses, as described further below.

Net loss for the three months ended June 30, 2007 was \$67.4 million, compared to a net income of \$15.8 million in the same period in 2006, as a result of the above-mentioned factors.

Investment Results

Panelboard investments, held through Norbord Inc., contributed a net loss of \$12.0 million for the first six months of 2007, compared with an income contribution of \$33.9 million for the same period last year. The loss for the first half of 2007 reflects continued pressure on oriented strandboard prices in North America due to weak housing starts in the United States and OSB oversupply, partly offset by improved price performance for Norbord's panelboard products in Europe.

Other forest product investments, held through Fraser Papers Inc., contributed a net loss of \$23.0 million for the first six months of 2007, compared to a loss of \$44.5 million for the same period last year, which included several non-recurring items. The loss for the first half of 2007 includes a one-time restructuring charge related to the closing of two paper machines and other costs related to maintenance and market-related downtime at Fraser Papers' operations.

The unrealized foreign exchange losses of \$25.3 million resulted mainly from the impact of the stronger Canadian dollar on the conversion of the company's Canadian dollar denominated monetary asset and liabilities to United States dollars, which is the reporting currency of the company.

Corporate

The company's Board of Directors declared the regular quarterly dividend of \$0.29375 per share on its Senior Preferred shares, Series A payable on September 30, 2007 to shareholders of record on September 20, 2007. For purposes of the enhanced dividend tax credit rules contained in the Income Tax Act (Canada) and any corresponding provincial and territorial tax legislation, all dividends (and deemed dividends) paid by the company to Canadian residents on our preferred shares after December 31, 2005, are designated as "eligible dividends". Unless stated otherwise, all company dividends (and deemed dividends) are designated as "eligible dividends" for the purposes of these rules.

On behalf of the Board of Directors,



Edward C. Kress
Chairman and Chief Executive Officer

August 9, 2007

Management Discussion & Analysis:

OVERVIEW

This section of our interim report includes management's discussion and analysis of our financial results ("MD&A") for the most recent period. The MD&A is intended to provide you with an assessment of our performance over the first six months of 2007 and the comparable period in the prior year, as well as our financial position, performance objectives and future prospects. The financial data included in this section were prepared in accordance with Canadian generally accepted accounting principles.

The information in this section should be read in conjunction with our unaudited consolidated financial statements, which are included on pages 5 through 11 of this report and the MD&A and consolidated financial statements contained in our most recent annual report. Additional information is available on SEDAR's web site at www.sedar.com.

Brascade Corporation ("Brascade" or "the company") is an investment company with interests in the forest products and property sectors. Brascade's principal investments as at June 30, 2007 included a 49% common share interest in Fraser Papers Inc. ("Fraser Papers"), a 38% common share interest in Norbord Inc. ("Norbord"), a 15% ordinary share interest in Canary Wharf Group ("Canary Wharf") and a 5% common share interest in Brookfield Properties Corporation ("Brookfield Properties"), as well as a portfolio of preferred shares issued by companies in the Brookfield Asset Management group.

The following analysis describes the components of Brascade's revenues and expenses, the related assets and liabilities, and the business environment for its operations.

Effective January 1, 2007, the company adopted several new accounting guidelines that were introduced by the Canadian Institute of Chartered Accountants, as further described in Note 3 to the Consolidated Interim Financial Statements. The principal impact on the company is the requirement to carry its investments classified as available-for-sale at market value, as opposed to the cost method. Changes in value are recorded in the Statement of Comprehensive Income and on a cumulative basis within Accumulated Other Comprehensive Income, which is a component of Shareholders' Equity. The implementation of these policies resulted in a decrease of the carrying value of the Securities and an increase of the carrying value of the Investment in Brookfield Properties, with the corresponding changes in Other Comprehensive Income.

INCOME ANALYSIS

Brascade reported a net loss of \$71.6 million for the first six months of 2007, compared to a net income of \$6.0 million in the first six months of 2006. The results for the first six months of 2007 were largely impacted by a \$35.0 million net loss from the company's forest product equity investments and \$25.3 million of unrealized foreign exchange losses, as described further below.

Net loss for the three months ended June 30, 2007 was \$67.4 million, compared to a net income of \$15.8 million in the same period in 2006, as a result of the above-mentioned factors.

Brascade's investments in the forest product sector as at June 30, 2007 consisted of a 38% interest in Norbord and a 49% interest in Fraser Papers. These investments contributed a net loss of \$35.0 million for the six months ended June 30, 2007 compared with a net loss of \$10.6 million for the same period of 2006. Panelboard investments, held through Norbord, contributed a net loss of \$12.0 million for the first six months of 2007, compared with an income contribution of \$33.9 million for the same period last year. The loss for the first half of 2007 reflects continued pressure on oriented strandboard prices in North America due to weak housing starts in the United States and OSB oversupply, partly offset by improved price performance for Norbord's panelboard products in Europe. Other forest product investments, held through Fraser Papers, contributed a net loss of \$23.0 million, compared to a loss of \$44.5 million for the same period of 2006 which included several non-recurring items. The loss for the first half of 2007 includes a one-time restructuring charge related to the closing of two paper machines and other costs related to maintenance and market-related downtime at Fraser Papers' operations.

A foreign exchange loss of \$25.3 million was recorded in the first six months of 2007, compared with a loss of \$9.1 million for the same period in 2006. The loss resulted from converting the company's Canadian dollar and British pound denominated monetary assets and liabilities to United States dollars.

Other income, which includes interest on the company's investment in loans made to affiliates, dividend income and a revaluation gain on the exchangeable debentures issued by the company that are exchangeable into 20 million Norbord common shares, was \$7.7 million for the six months ended June 30, 2007 compared to \$61.7 million for the same period in 2006.

Interest expense includes \$4.7 million in respect of the exchangeable debentures, as well as \$14.0 million related to the retractable preferred shares dividend payment.

BALANCE SHEET ANALYSIS

Brascade's long-term investments at June 30, 2007 consisted of a 49% common share interest in Fraser Papers, a 38% common share interest in Norbord, a 15% ordinary share interest in Canary Wharf and a 5% common share interest in Brookfield Properties.

During the first quarter of 2007, Brascade Corporation amalgamated with Diversified Canadian Financial II Corp. and Diversified Canadian Financial Holdings Inc. As a result of this amalgamation, Brascade increased its portfolio of preferred shares issued by companies in the Brookfield Asset Management group, having a carried value of \$284.4 million, from \$155.6 million at December 31, 2006.

Further information on Norbord is available through its web site at www.norbord.com.

Further information on Fraser Papers is available through its web site at www.fraserpapers.com.

Further information on Brookfield Properties is available through its web site at www.brookfieldproperties.com.

Loans receivable include funds on deposit with Brookfield, which bear interest at the prime rate and are available on demand.

Accounts payable includes \$174.6 million representing the debentures exchangeable into 20 million Norbord common shares, which will mature on September 30, 2029.

The retractable preferred shares are retractable at the option of the holder and, accordingly, are recorded as liabilities.

LIQUIDITY AND CAPITAL RESOURCES

Brascade's cash flow from operations was \$4.1 million for the six months ended June 30, 2007, compared to \$7.0 million for the same period in 2006. Cash flow used in financing activities amounted to \$105.0 million during the six months ended June 30, 2007, compared to \$nil for the same period in 2006. Cash flow from investing activities amounted to \$96.4 million during the six months ended June 30, 2007, compared to cash flow utilized of \$7.0 million for the same period in 2006.

The company generates sufficient cash flow from operations to fund its interest expense obligations. In addition, the company maintains funds on deposit and securities, which with varying degrees of timing, can be liquidated and utilized to fund cash requirements. \$579.5 million of the company's retractable preferred shares are held directly or indirectly by the company's sole common shareholder. The remaining \$119.1 million of retractable preferred shares are held by other holders, and satisfaction of any retractions can be made through the company's general cash resources or through the proceeds from the sale of assets.

CONTRACTUAL OBLIGATIONS

The following table presents the contractual obligations of the company by payment periods:

	Payments Due by Period				
	Total	Less Than One Year	1-3 Years	4-5 Years	After 5 Years
<i>US\$ millions</i>					
Retractable preferred shares ⁽¹⁾	\$698.6	\$698.6	—	—	—

(1) Retractable at the option of the holder.

SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

The company accounts for its long-term corporate investments in Norbord and Fraser Papers on the equity

basis. The excess of acquisition costs over the net underlying book value of these investments has been allocated to goodwill. The company evaluates the carrying values of this excess for potential impairment on a regular basis in conjunction with its review of the carrying values of its overall investments. The company's investments in Canary Wharf and Brookfield Properties are accounted for under the cost method, with dividends generally being recognized as income on the record date. Dividends received in excess of the company's share of post acquisition earnings of Canary Wharf are treated as a reduction of the company's investment.

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates are required in the determination of cash flows and probabilities in assessing net recoverable amounts and net realizable values; tax and other provisions; and fair values for disclosure purposes.

SUMMARY FINANCIAL INFORMATION

The following table summarizes selected consolidated financial information of the company for the eight recently completed quarters:

US\$ million, except per share amounts	2007		2006				2005	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Income (loss)	\$ (57.9)	\$ 5.3	\$ 13.7	\$ 168.4	\$ 42.7	\$ (0.7)	\$ 18.1	\$ 780.5
Net income (loss)	\$ (67.4)	\$ (4.2)	\$ 4.2	\$ 158.7	\$ 15.8	\$ (9.8)	\$ 9.0	\$ 770.2
Net income (loss) per common share	\$ (1.47)	\$ (0.09)	\$ 0.09	\$ 3.45	\$ 0.34	\$ (0.21)	\$ 0.20	\$ 19.74

Net loss during the second quarter of 2007 was \$67.4 million compared to a net income of \$15.8 million for the same period in 2006. The net loss in the second quarter of 2007 reflects the loss contributed by the company's forest product investments, as well as unrealized foreign exchange losses on monetary assets and liabilities.

Business Risks

Brascade's forest product investments are cyclical. Fluctuations in the general level of economic activity in the world's major economies influence the demand for and prices of the various products produced by its investee companies, although the cycles for individual products may be at different phases at any time. Brascade's earnings from this sector are particularly sensitive to changes in the prices of panelboards and paper. Brascade's commercial property investments are subject to general economic conditions as well as risks specifically associated with the commercial property market. A further discussion on the risks associated with each of our investments is included in Management's Discussion and Analysis in each of their respective annual reports, which can be accessed through SEDAR at www.sedar.com or through their web sites as provided earlier in this report.

REVIEW OF INTERIM FINANCIAL STATEMENTS

The accompanying unaudited interim financial statements of the company have been prepared by and are the responsibility of the company's management. The company's independent auditor has not reviewed these financial statements.



Sachin G. Shah
Vice-President and Chief Financial Officer
August 9, 2007

Note:

This interim report contains forward-looking statements concerning the company's business and operations. The company cautions that, by their nature, forward-looking statements involve risk and uncertainty and the company's actual results could differ materially from those expressed or implied in such statements. Reference should be made to the company's most recent Annual Information Form for a description of the major risk factors.

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Statements of Operations

<i>(unaudited)</i>	<i>Three months ended</i>		<i>Six months ended</i>	
	<i>June 30</i>		<i>June 30</i>	
<i>US\$ millions, except per share amounts</i>	2007	2006	2007	2006
Income				
Equity income (loss) from Norbord Inc.	\$ (6.0)	\$ 12.3	\$ (12.0)	\$ 33.9
Equity loss from Fraser Papers Inc.	(18.1)	(9.3)	(23.0)	(44.5)
Foreign exchange loss	(23.0)	(12.7)	(25.3)	(9.1)
Other income (loss)	(10.8)	52.4	7.7	61.7
	(57.9)	42.7	(52.6)	42.0
Expenses				
Interest expense	9.4	26.6	18.7	35.6
Corporate	0.1	0.3	0.3	0.4
	9.5	26.9	19.0	36.0
Net income (loss)	\$ (67.4)	\$ 15.8	\$ (71.6)	\$ 6.0
Net income (loss) per common share	\$ (1.47)	\$ 0.34	\$ (1.56)	\$ 0.13

Consolidated Statements of Comprehensive Income (Loss)

<i>(unaudited)</i>	<i>Three months ended</i>		<i>Six months ended</i>	
	<i>June 30</i>		<i>June 30</i>	
<i>US\$ millions</i>	2007	2006	2007	2006
Net income (loss)	\$ (67.4)	\$ 15.8	\$ (71.6)	\$ 6.0
Other comprehensive income (loss)				
Foreign currency translation	2.1	3.7	(8.9)	6.1
Available-for-sale securities	(47.7)	—	(38.4)	—
Derivative instruments designated as hedges	—	—	0.2	—
	(45.6)	3.7	(47.1)	6.1
Comprehensive income (loss)	\$ (113.0)	\$ 19.5	\$ (118.7)	\$ 12.1

Accumulated Other Comprehensive Income (Loss)

<i>(unaudited)</i>	<i>Three months ended</i>	<i>Six months ended</i>
	<i>June 30</i>	<i>June 30</i>
<i>US\$ millions</i>	2007	2007
Balance, beginning of period	\$ 32.4	\$ —
Transition adjustment - January 1, 2007	—	33.9
Other comprehensive loss	(45.6)	(47.1)
Balance, end of period	\$ (13.2)	\$ (13.2)

Consolidated Statements of Deficit

<i>(unaudited)</i>	<i>Three months ended</i>		<i>Six months ended</i>	
	<i>June 30</i>		<i>June 30</i>	
<i>US\$ millions</i>	2007	2006	2007	2006
Deficit, beginning of period	\$ (273.7)	\$ (341.1)	\$ (267.4)	\$ (331.3)
Change in accounting policy	—	—	(2.1)	—
Net income (loss) for the period	(67.4)	15.8	(71.6)	6.0
Deficit, end of period	\$ (341.1)	\$ (325.3)	\$ (341.1)	\$ (325.3)

Consolidated Balance Sheets

	<i>June 30</i>	<i>December 31</i>
<i>US\$ millions</i>	2007	2006
	<i>(unaudited)</i>	
Assets		
Loans receivable	\$ 276.2	\$ 205.1
Securities	291.0	167.4
Investment in Norbord Inc.	163.3	177.5
Investment in Fraser Papers Inc.	127.2	149.5
Investment in Canary Wharf Group, plc	256.2	256.2
Investment in Brookfield Properties Corporation	451.2	470.3
	\$ 1,565.1	\$ 1,426.0
Liabilities		
Accounts payable	\$ 176.5	\$ 156.2
Retractable preferred shares (Note 6)	698.6	476.6
Shareholders' equity (Note 7)	690.0	793.2
	\$ 1,565.1	\$ 1,426.0

Consolidated Statements of Cash Flows

<i>(unaudited)</i>	<i>Three months ended</i>		<i>Six months ended</i>	
	<i>June 30</i>		<i>June 30</i>	
<i>US\$ millions</i>	2007	2006	2007	2006
Cash flow from (used in) operating activities				
Net income (loss)	\$ (67.4)	\$ 15.8	\$ (71.6)	\$ 6.0
Adjusted for the following non-cash items				
Excess of equity income over dividends received	29.2	18.0	44.8	36.3
Net change in non-cash working capital balances	41.5	(31.8)	30.9	(35.3)
	3.3	2.0	4.1	7.0
Cash flow used in financing activities				
Share redemption	—	—	(105.0)	—
	—	—	(105.0)	—
Cash flow from (used in) investing activities				
Investment in Fraser Papers Inc.	(0.8)	—	(0.8)	(1.3)
Investment in Norbord Inc.	(5.1)	—	(8.2)	—
Securities	—	344.9	—	344.9
Loans receivable	2.6	(346.9)	105.4	(350.6)
	(3.3)	(2.0)	96.4	(7.0)
Net change and closing cash balance	\$ —	\$ —	\$ —	\$ —

Notes to Consolidated Financial Statements

1. SUMMARY OF ACCOUNTING POLICIES

Reference is made to the most recently issued Annual Report of the company, which includes information necessary or useful for understanding the company's businesses and financial statement presentation. In particular, the company's significant accounting policies and practices are presented as Note 2 to the Consolidated Financial Statements included in that Report, and have been consistently applied in the preparation of these interim financial statements.

The interim financial statements are unaudited. Financial information in this interim report reflects any adjustments (consisting only of normal recurring adjustments) that are, in the opinion of management, necessary to a fair statement of results for the interim periods in accordance with Canadian generally accepted accounting principles.

The results reported in these financial statements should not be regarded as necessarily indicative of results that may be expected for the entire year. Certain prior period amounts have been reclassified to conform to the current period's presentation.

2. REORGANIZATION

On January 1, 2007, Brascade Corporation ("Brascade") amalgamated with Diversified Canadian Financial II Corp. ("DCF II") and Diversified Canadian Holdings Inc. ("DCHI"), and continues under the name of Brascade Corporation. At the time of the amalgamation, Brascade owned a 49% common share interest in Fraser Papers Inc, a 38% common share interest in Norbord Inc., a 15% ordinary share interest in Canary Wharf Group, plc, a 5% common share interest in Brookfield Properties Corporation, and a portfolio of preferred shares issued by companies in the Brookfield Asset Management group. DCF II also owned a portfolio of preferred shares issued by companies in the Brookfield Asset Management group.

In conjunction with the amalgamation, holders of the Class 1 senior preferred shares, Series B of Brascade (the "Brascade Series B Preferred Shares") resident in Canada were entitled to elect to receive either C\$40.00 in cash per Brascade Series B Preferred Share they then held, or 1.6 senior preferred shares of the amalgamated company having a redemption price of C\$25.00 per share and paying quarterly dividends based on an annual rate of 4.70%. Residents of jurisdictions outside Canada automatically received on amalgamation C\$40.00 in cash per Brascade Series B Preferred Share they then held.

In conjunction with the amalgamation, holders of the Class A preference shares of DCF II (the "DCF II Senior Preferred Shares") resident in Canada were entitled to elect to receive either C\$25.00 in cash per DCF II Senior Preferred Share they then held, or one senior preferred share of the amalgamated company, as described above. Residents of jurisdictions outside Canada automatically received on amalgamation C\$25.00 in cash per Brascade Series B Preferred Share they then held.

As a result of the elections, 522,486 Brascade Series B Preferred Shares and 3,865,812 DCF II Senior Preferred Shares were redeemed for cash at the rate of C\$40.00 and C\$25.00 per share, respectively, representing a total redemption payment of C\$117.6 million. A further 3,581,677 Brascade Series B Preferred Shares held by DCF II and DCHI were cancelled on amalgamation.

Holders of 1,160,375 Brascade Series B Preferred Shares and 4,134,188 DCF II Senior Preferred Shares elected to exchange their shares for the new Class 1 senior preference shares, Series A of the amalgamated corporation (the "Brascade Series A Preferred Shares") at the conversion rate of 1.6 and 1.0 per share, respectively. As a result, a total of 5,990,785 Brascade Series A Preferred Shares were issued on amalgamation. The Series A Preferred Shares commenced trading on the Toronto Stock Exchange at the start of the business on January 4, 2007, under the stock symbol BCA.PR.A.

As a result of the amalgamation, Brascade's loans receivable and securities increased by \$99.0 million and \$117.1 million respectively.

3. CHANGES IN ACCOUNTING POLICIES

In 2005, the CICA issued four new accounting standards: Handbook Section 1530, Comprehensive Income (Section 1530), Handbook Section 3855, Financial Instruments – Recognition and Measurement (Section 3855), Handbook Section 3865, Hedges (Section 3865) and Handbook Section 3861, Financial Instruments – Disclosure and Presentation (Section 3861), which provides disclosure and presentation requirements related to the aforementioned standards. These new standards became effective for the company on January 1, 2007.

Comprehensive Income

Section 1530 introduces Comprehensive Income and represents changes in Shareholders' Equity during a period arising from transactions and other events with non-owner sources. Other Comprehensive Income (OCI) includes unrealized gains and losses on financial assets classified as available-for-sale, unrealized foreign currency translation amounts, unrealized gains and losses on derivatives designated to hedge self-sustaining foreign operations, and changes in the fair value of the effective portion of cash flow hedging instruments. The Interim Consolidated Financial Statements include a Statement of Comprehensive Income while the cumulative amount, Accumulated Other Comprehensive Income (AOCI), is presented as a new category of Shareholders' Equity in the Consolidated Balance Sheet.

Financial Instruments – Recognition and Measurement

Section 3855 establishes standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. It requires that financial assets and financial liabilities including derivatives be recognized on the balance sheet when we become a party to the contractual provisions of the financial instrument or a non-financial derivative contract. All financial instruments should be measured at fair value on initial recognition except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as held-for-trading, available-for-sale, held-to-maturity, loans and receivables, or other liabilities. Transaction costs related to trading financial assets or liabilities are expensed as incurred. For other financial instruments, transaction costs are capitalized on initial recognition and amortized using the effective interest method of amortization.

Financial assets and financial liabilities held-for-trading will be measured at fair value with gains and losses recognized in Net Income. Available-for-sale financial assets will be measured at fair value with unrealized gains and losses including changes in foreign exchange rates being recognized in OCI. Financial assets held-to-maturity, loans and receivables and financial liabilities other than those held-for-trading will be measured at amortized cost using the effective interest method of amortization. Investments in equity instruments classified as available-for-sale that do not have a quoted market price in an active market will be measured at cost.

Derivative instruments must be recorded on the balance sheet at fair value including those derivatives that are embedded in financial instruments or other contracts that are not closely related to the host financial instrument or contract. Changes in the fair values of derivative instruments will be recognized in Net Income, except for effective derivatives that are designated as cash flow hedges not classified as held-for-trading, the fair value change for which will be recognized in OCI.

Section 3855 permits an entity to designate any financial instrument as held-for-trading on initial recognition or adoption of the standard, even if that instrument would not otherwise satisfy the definition of held-for-trading set out in Section 3855. Instruments that are classified as held-for-trading by way of this “fair value option” must have reliably measurable fair values.

Other significant accounting implications arising on adoption of Section 3855 include the initial recognition of certain financial guarantees at fair value on the balance sheet and the use of the effective interest method of amortization for any transaction costs or fees, premiums or discounts earned or incurred for financial instruments measured at amortized cost.

Hedges

Section 3865 specifies the criteria under which hedge accounting can be applied and how hedge accounting should be executed for cash flow hedges. In a cash flow hedging relationship, the effective portion of the change in the fair value of the hedging derivative will be recognized in OCI. The ineffective portion will be recognized in Net Income. The amounts recognized in AOCI will be reclassified to Net Income in the periods in which Net Income is affected by the variability in the cash flows of the hedged item.

For hedging relationships existing prior to adopting Section 3865 that are continued and qualify for hedge accounting under the new standard, the transition accounting for cash flow hedges provides that any gain or loss on the hedging instrument that is determined to be the effective portion is recognized in AOCI and the ineffectiveness in the past periods is included in the opening balance of retained earnings on transition.

Impact of adopting Sections 1530, 3855, 3861 and 3865

The company recorded a transition adjustment effective January 1, 2007, attributable to the following: (i) an increase of \$2.1 million to opening deficit for foreign exchange on financial instruments classified as available-for-sale; (ii) recognition of \$17.6 million in AOCI related to the unrealized gain on available-for-sale financial instruments and effective cash flow hedges; (iii) reclassification of \$16.3 million of net foreign currency gains to AOCI, previously classified as the cumulative translation adjustment in Shareholders' Equity. The impact during the quarter is described in the Consolidated Statement of Comprehensive Income. The impact on Net Income during the period is not significant.

4. FAIR VALUES OF FINANCIAL INSTRUMENTS

The fair value of a financial instrument is the amount of consideration that would be agreed upon in an arm's-length transaction between knowledgeable, willing parties who are under no compulsion to act. Fair values are determined by reference to quoted bid or asking prices, as appropriate, in the most advantageous active market for that instrument to which we have immediate access. Where bid and ask prices are unavailable, we use the closing price of the most recent transaction of that instrument.

Fair value of financial instruments

As described in Note 3, financial instruments classified or designated as available-for-sale are typically carried at fair value on the Consolidated Balance Sheet. Equity instruments classified as available-for-sale that do not have a quoted market price from an active market are carried at cost. Any changes in the fair values of financial instruments classified as available-for-sale are

recognized in OCI. The cumulative changes in the fair values of available-for-sale securities previously recognized in AOCI are reclassified to Net Income when the underlying security is either sold or there is a decline in value that is considered to be other-than-temporary.

Available-for-sale securities measured at fair value or cost are assessed for impairment at each reporting date. As at June 30, 2007, unrealized losses embedded within available-for-sale securities measured at fair value amounted to \$23.3 million. Unrealized gains and losses for debt securities are primarily due to changing interest rates and for equity securities, are due to changes in market prices and foreign exchange movements, if applicable. As at June 30, 2007, the company did not consider any investments to be other-than temporarily impaired, as we have the ability and intent to hold them until the fair value recovers.

For the six months ended June 30, 2007, unrealized losses of \$38.4 million were recorded with respect to financial instruments classified as available-for-sale. The cumulative losses embedded within the financial instruments classified as available-for-sale amounted to \$22.8 million.

Hedging activities

The company may use derivatives and non-derivative financial instruments to manage our exposures to interest, currency, credit and other market risks. When derivatives are used to manage exposures, the company determines for each derivative whether hedge accounting can be applied. Where hedge accounting can be applied, a hedge relationship is designated as a cash flow hedge. The derivative must be highly effective in accomplishing the objective of offsetting either changes in the fair value or cash flows attributable to the hedged risk both at inception and over the life of the hedge. If it is determined that the derivative is not highly effective as a hedge, hedge accounting is discontinued prospectively.

Cash flow hedge

The company and its investee uses lumber derivative contracts primarily to hedge the sale of timber, and foreign exchange contracts to manage foreign currency exposure, interest rate swaps to hedge the variability in cash flows related to a variable rate asset or liability. All components of each derivative's change in fair value have been included in the assessment of cash flow hedge effectiveness. For the six months ended June 30, 2007, net unrealized gains of \$0.2 million were recorded in OCI for the effective portion of the cash flow hedges.

5. FUTURE ACCOUNTING POLICIES

Variability In Variable Interest Entities

On September 15, 2006, the Emerging Issues Committee issued Abstract No. 163, Determining the Variability to be Considered in Applying AcG-15 (EIC-163). This EIC provides additional clarification on how to analyze and consolidate VIEs. EIC-163 will be effective for the company on April 1, 2007. However, the impact is not expected to be material to our consolidated financial position or results of operations.

Capital Disclosures

On December 1, 2006, the CICA issued Section 1535, Capital Disclosures. Section 1535 requires the disclosure of (i) an entity's objectives, policies and process for managing capital; (ii) quantitative data about an entity's managed capital; (iii) whether an entity has complied with capital requirements; and (iv) if an entity has not complied with such capital requirements, the consequences of such non-compliance.

Financial Instruments – Disclosures and Presentation

On December 1, 2006, the CICA issued two new accounting standards, Section 3862, Financial Instruments – Disclosures and Section 3863, Financial Instruments – Presentation. These standards replace Section 3861, Financial Instruments – Disclosure and Presentation and enhance the disclosure of the nature and extent of risks arising from financial instruments and how the entity manages those risks.

Debt Instruments with Embedded Derivatives

On March 5, 2007, the Emerging Issues Committee issued Abstract No. 164, Convertible and Other Debt Instruments with Embedded Derivatives (EIC-164). The EIC provides guidance on how the issuer should account for and the financial statement presentation of the instrument, embedded derivatives within the hybrid instrument, the future tax aspects of the instrument and how the instrument is to be treated in earnings per share computation. The impact is not expected to be material to our consolidated financial position or results of operations.

6. RETRACTABLE PREFERRED SHARES

		<i>June 30</i>	<i>December 31</i>
<i>US\$ millions, except number of shares</i>		2007	2006
—	Class 1 Senior Preferred Shares, Series B (2006 - 5,264,536)	\$ —	\$ 180.0
—	Class 2 Junior Preferred Shares, Series A (2006 - 9,568,070)	—	296.6
5,990,785	Class 1 Senior Preferred Shares, Series A (2006 - nil)	140.6	—
17,999,718	Class 1 Junior Preferred Shares, Series A (2006 - nil)	558.0	—
		\$ 698.6	\$ 476.6

7. SHAREHOLDERS' EQUITY

		<i>June 30</i>	<i>December 31</i>
<i>US\$ millions, except number of shares</i>		2007	2006
46,040,326	Common shares (2006 - 46,040,326)	\$ 1,044.3	\$ 1,044.3
	Deficit	(341.1)	(267.4)
	Accumulated other comprehensive income (loss)	(13.2)	—
	Cumulative translation adjustment	—	16.3
		\$ 690.0	\$ 793.2

Enquires relating to the operations of the company should be directed to the company's Head Office:

Suite 300, 181 Bay Street
Brookfield Place, P.O. Box 762
Toronto, Ontario M5J 2T3
Telephone: 416-363-9491
Facsimile: 416-363-2856

Questions about shareholdings, dividends, address changes or lost certificates should be directed to CIBC Mellon Trust Company:

P.O. Box 7010, Adelaide Street Postal Station
Toronto, Ontario M5C 2W9
Telephone: 416-643-5500 or
1-800-387-0825
Facsimile: 416-643-5501