

## **Headnote**

Mutual Reliance Review System for Exemptive Relief Applications -- Relief from continuous disclosure, insider reporting, certification, audit committee and corporate governance requirements granted to an exchangeable share issuer, subject to conditions. Issuer technically unable to rely on statutory exemptions due to the issuance of preferred shares to a financial institution. Preferred shares are non-transferable and functionally equivalent to debt securities permitted under statutory exemptions.

### **Applicable Ontario Statutory Provisions**

Securities Act, R.S.O. 1990, c. S.5, as am., s. 121(2)(a)(ii).

National Instrument 51-102 Continuous Disclosure Obligations.

National Instrument 55-102 System for Electronic Disclosure by Insiders.

Multilateral Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings.

Multilateral Instrument 52-110 Audit Committees.

National Instrument 58-101 Disclosure of Corporate Governance Practices.

**March 30, 2007**

**IN THE MATTER OF  
THE SECURITIES LEGISLATION OF  
BRITISH COLUMBIA, ALBERTA, SASKATCHEWAN,  
MANITOBA, ONTARIO, QUÉBEC, NEW BRUNSWICK,  
NOVA SCOTIA, NEWFOUNDLAND AND LABRADOR,  
NUNAVUT AND THE YUKON (the "Jurisdictions")**

**AND**

**IN THE MATTER OF  
THE MUTUAL RELIANCE REVIEW SYSTEM  
FOR EXEMPTIVE RELIEF APPLICATIONS**

**AND**

**IN THE MATTER OF  
DOMTAR INC. ("Domtar") AND  
DOMTAR (CANADA) PAPER INC.  
("Newco Canada Exchangeco")**

**MRRS DECISION DOCUMENT**

## Background

The local securities regulatory authority or regulator (the "**Decision Maker**") in each of the Jurisdictions has received an application from Domtar with respect to Newco Canada Exchangeco for a decision under the securities legislation of the Jurisdictions (the "**Legislation**") for the following relief:

1. an exemption from the requirements of the Legislation relating to continuous disclosure obligations (the "**Continuous Disclosure Relief**");
2. an exemption from the requirements of the Legislation relating to insider reporting requirement and filing of an insider profile (the "**Insider Reporting and Filing of Insider Profile Relief**");
3. an exemption from the requirements of the Legislation relating to audit committees (the "**Audit Committee Relief**");
4. an exemption from the requirements of the Legislation relating to certification of disclosure of annual and interim filings (the "**Certification Relief**"); and
5. an exemption from the requirements of the Legislation relating to disclosure of corporate governance practices (the "**Corporate Governance Relief**").

Under the Mutual Reliance Review System for Exemptive Relief Applications:

1. the Autorité des marchés financiers is the principal regulator for Domtar; and
2. this MRRS decision document evidences the decision of each Decision Maker.

## Interpretation

Defined terms contained in National Instrument 14-101 -- *Definitions* have the same meanings in this decision unless they are defined in this decision.

## Representations

This decision is based on the following facts represented by Domtar:

### The Proposed Transaction and Mechanics of the Arrangement

1. Pursuant to a transaction agreement dated as of August 22, 2006 (as subsequently amended), Domtar and Weyerhaeuser Company ("**Weyerhaeuser**") agreed to combine Domtar with the Weyerhaeuser Fine Paper Business (the "**Proposed Transaction**").

2. The Proposed Transaction would, subject to applicable shareholder, regulatory and court approval and other conditions, effect a combination of Domtar with the Weyerhaeuser Fine Paper Business pursuant to a plan of arrangement (the "**Arrangement**") under Section 192 of the *Canada Business Corporations Act* (the "**CBCA**"), utilizing a traditional cross-border "exchangeable share" structure, with the particularity, for United States tax purposes, of a "Reverse Morris Trust" feature which provides certain tax advantages to Weyerhaeuser's U.S. shareholders in the context of the spin-off or split-off of the Weyerhaeuser Fine Paper Business into a separate legal entity.

3. Upon completion of the Proposed Transaction, Domtar Corporation ("**Spinco**") will directly or indirectly own and operate the Weyerhaeuser Fine Paper Business and indirectly own all of the common shares of Domtar (the "**Domtar Common Shares**").

4. Below is a chronological step by step description of the material events relating to the Proposed Transaction.

#### The Canadian Asset Transfer

5. Weyerhaeuser Company Limited and Weyerhaeuser Saskatchewan Ltd., two Canadian subsidiaries of Weyerhaeuser, will transfer certain of their fine paper and related assets (the "**Canadian Fine Paper Assets**") to a subsidiary of Newco Canada Exchangeco and such subsidiary of Newco Canada Exchangeco will assume certain of Weyerhaeuser Company Limited's and Weyerhaeuser Saskatchewan Ltd.'s fine paper and related liabilities.

#### The Newco Contribution

6. Weyerhaeuser will transfer to Domtar Paper Company, LLC ("**Newco**"), a subsidiary of Weyerhaeuser, certain of Weyerhaeuser's U.S. fine paper and related assets (the "**U.S. Fine Paper Assets**", together with the Canadian Fine Paper Assets, the "**Weyerhaeuser Fine Paper Business**") in exchange for the issuance of additional limited liability company interests of Newco to Weyerhaeuser and the assumption by Newco of certain of Weyerhaeuser's fine paper and related liabilities.

#### The Interim Financing

7. Spinco, a subsidiary of Weyerhaeuser, will draw down US\$1.35 billion under a three-month unsecured term loan facility.

#### The Spinco Contribution

8. Weyerhaeuser will transfer to Spinco all of the issued and outstanding limited liability company interests of Newco in exchange for (a) US\$1.35 billion in cash;

and (b) a number of shares of common stock of Spinco (the "**Spinco Common Stock**"), determined in accordance with a formula specified pursuant to the Proposed Transaction.

#### The Distribution

9. It is contemplated that Weyerhaeuser will distribute all the issued and outstanding shares of Spinco Common Stock to the Weyerhaeuser shareholders by way of an exchange offer whereby Weyerhaeuser shareholders will receive approximately US\$1.11 of Spinco Common Stock for each US\$1.00 of Weyerhaeuser shares so tendered, subject to a limit of 11.1442 shares of Spinco Common Stock for each Weyerhaeuser share.

#### The Arrangement

10. The Arrangement will be consummated on the effective date (the "**Effective Date**") pursuant to Section 192 of the CBCA which will include the following steps at closing:

(a) all outstanding Domtar Common Shares (other than Domtar Common Shares held by holders who have exercised their dissent rights under the Arrangement) will be exchanged, on a one-for-one basis, for Class B common shares (the "**Class B Common Shares**") of a direct wholly-owned subsidiary of Newco Canada Exchangeco incorporated under the CBCA ("**Offerco**");

(b) following the exchange contemplated in (a) above, the Class B Common Shares of Offerco held by former holders of Domtar Common Shares who are Canadian residents or who are partnerships at least one partner of which is a resident of Canada (other than any such holder or partner who is exempt from tax under the Income Tax Act (Canada)) will, at the holder's election, be transferred to Newco Canada Exchangeco for (i) shares of Spinco Common Stock; or (ii) exchangeable shares of Newco Canada Exchangeco (the "**Exchangeable Shares**") and ancillary rights, in each case on a one-for-one basis. The Exchangeable Shares will be substantially economically equivalent to shares of Spinco Common Stock, with the same or substantially economically equivalent dividend entitlement and voting rights. The Exchangeable Shares will be exchangeable at any time at the option of the holder into shares of Spinco Common Stock on a one-for-one basis;

(c) Class B Common Shares of Offerco held by former holders of Domtar Common Shares with an address in Canada who do not make an election or whose election is not effective will be

transferred to Newco Canada Exchangeco in exchange for the Exchangeable Shares on a one-for-one basis;

(d) former holders of Domtar Common Shares who are not referred to in paragraph (b) or (c) above will transfer their Class B Common Shares of Offerco to Newco Canada Exchangeco in exchange for shares of Spinco Common Stock on a one-for-one basis. After this step, Spinco will indirectly own all of the outstanding common shares of Newco Canada Exchangeco which will own all of the Domtar Common Shares;

(e) Spinco shall issue and deposit with the trustee under a voting trust agreement (the "**Voting Trust Agreement**") one share of special voting stock of Spinco to be held by the trustee for and on behalf of, and for the use and benefit of, the holders of the Exchangeable Shares in accordance with the Voting Trust Agreement;

(f) the Series A preferred shares of Domtar (the "**Series A Preferred Shares**") and the Series B preferred shares of Domtar (the "**Series B Preferred Shares**", together with the Series A Preferred Shares, the "**Domtar Preferred Shares**") that are not held by a holder who has exercised its dissent rights under the Arrangement shall remain outstanding after the Effective Date;

(g) Class B Common Shares of Offerco received by Newco Canada Exchangeco under the Arrangement (as referred in paragraph (b) above) will be converted into Class A common shares of Offerco under the Arrangement; and

(h) the Domtar Options (as defined below) as well as other Domtar equity awards will be exchanged for options to purchase shares of Spinco Common Stock or other comparable securities of Spinco or Newco Canada Exchangeco pursuant to the terms set forth in the Arrangement.

11. Following the consummation of the Proposed Transaction (including the implementation of the Arrangement), Spinco will be owned approximately 55% by holders of Weyerhaeuser common shares or former holders of Weyerhaeuser common shares (including holders of shares exchangeable for common shares of Weyerhaeuser) and 45% by former holders of Domtar Common Shares (including through their ownership of the Exchangeable Shares), in each case on a fully-diluted basis.

#### Securityholder Approval

12. The Arrangement will require the affirmative vote of not less than:

(a) 66 2/3% of the votes cast on the special resolution by the holders of the Domtar Common Shares and the Domtar Preferred Shares (the "**Domtar Shares**") and holders of options to purchase Domtar Common Shares (the "**Domtar Options**") under Domtar's stock option plans, present in person or by proxy at the special meeting of holders of Domtar securityholders (the "**Domtar Meeting**"); and

(b) 66 2/3% of the votes cast on the special resolution by holders of Domtar Shares present in person or by proxy excluding (i) holders of the Domtar Options; (ii) holders of Domtar Common Shares which are pledged to secure loans provided pursuant to a certain Domtar stock option and share purchase plan; and (iii) holders of Domtar Common Shares who also hold Domtar Options.

#### Court Approval

13. On January 26, 2007, the Superior Court of Québec (the "**Court**") granted an interim order (the "**Interim Order**") under the CBCA governing various procedural matters in connection with the approval of the Arrangement by Domtar securityholders, including the mailing of the management information circular prepared for the Domtar Meeting in connection with Proposed Transaction (the "**Domtar Circular**"). The Interim Order provides for the calling and holding of the Domtar Meeting on February 26, 2007. On February 26, 2007, the Arrangement was approved by the requisite number of votes of Domtar securityholders (as set forth above) and a final order of the Court approving the Arrangement was granted on February 27, 2007.

#### Spinco

14. Spinco is currently a wholly-owned subsidiary of Weyerhaeuser and was incorporated in its current form as a Delaware corporation in August 2006 to indirectly hold the Weyerhaeuser Fine Paper Business and consummate the Arrangement with Domtar.

15. The Weyerhaeuser Fine Paper Business is currently operated by Weyerhaeuser but will be transferred to subsidiaries of Spinco pursuant to the Proposed Transaction.

16. Spinco is an "SEC issuer" as such term is defined in National Instrument 52-107 -- *Acceptable Accounting Principles, Auditing Standards and Reporting Currency* as Spinco:

(a) has a class of securities registered under Section 12 of the United States *Securities Exchange Act of 1934*, as amended (the "**1934 Act**") or will be required to file reports under Section 15(d) of the 1934 Act; and

(b) is not registered or required to be registered as an investment company under the United States *Investment Company Act of 1940*, as amended.

17. Following the consummation of the Proposed Transaction, Spinco will become a reporting issuer under the securities legislation of applicable Jurisdictions where such concept exists.

18. Upon completion of the Proposed Transaction, Spinco Common Stock will be listed on the New York Stock Exchange (the "**NYSE**") and the Toronto Stock Exchange (the "**TSX**").

#### Newco Canada Exchangeco

19. Newco Canada Exchangeco, currently a subsidiary of Weyerhaeuser, is a corporation governed under the *Business Corporations Act* (British Columbia) for the purpose of implementing the Proposed Transaction. Newco Canada Exchangeco will undertake various issuances and exchanges of securities in connection with the Arrangement described herein. Newco Canada Exchangeco's registered office address is 925 West Georgia St., 5th Floor, Vancouver, British Columbia V6C 3L2.

20. In addition to the Exchangeable Shares, the authorized share capital of Newco Canada Exchangeco will, upon completion of the Proposed Transaction, consist of:

(a) an unlimited number of common shares all of which such shares that are issued and outstanding will be held by Domtar Pacific Papers ULC ("**Newco Canada**"), an affiliate of Spinco. Newco Canada Exchangeco will be controlled by Newco Canada upon completion of the Proposed Transaction;

(b) Class A preference shares (non-voting) (the "**Class A Preference Shares**") and Class B preference shares (non-voting) issuable in series upon terms and conditions to be fixed by the board of directors (the "**Class B Preference Shares**"). The Class A and Class B Preference Shares will not be issued in connection with the Proposed Transaction (including the Arrangement); and

(c) Class C preference shares (non-voting) (the "**Class C Preference Shares**"), which will be issued to Newco Canada prior

to the Effective Time of the Arrangement and which in turn will be sold to a third party, immediately before, or simultaneously with, the Effective Time of the Arrangement in connection with the Proposed Transaction.

21. The Class C Preference Shares (a) will be issued in connection with the Proposed Transaction; (b) will be non-voting and will not carry any of the ancillary rights which will be attached to the Exchangeable Shares; (c) will have an aggregate liquidation value of C\$1,100,000 and will be mandatorily redeemable at that value, on the date which is seven years following their issuance unless there is a legal prohibition against such redemption; and (d) will be treated as long-term liabilities of Newco Canada Exchangeco for accounting purposes for a period of six years from the date of issuance.

22. The Continuous Disclosure Relief, the Insider Reporting and Filing of Insider Profile Relief, the Audit Committee Relief, the Certification Relief and the Corporate Governance Relief under the Legislation were each designed to apply to issuers of exchangeable securities in circumstances where the continuous disclosure, insider reporting, audited financial information and other information relevant to holders of securities of the issuer of the exchangeable shares is the information of the issuer of the underlying securities (which, in the current context, is Spinco). The aforementioned exemptions under the Legislation will technically not be available to Newco Canada Exchangeco upon completion of the Arrangement as a result of the issuance by Newco Canada Exchangeco of the Class C Preference Shares, which will be held upon completion of the Arrangement by a third party.

23. Holders of Exchangeable Shares will have a participating interest determined by reference to Spinco, rather than to Newco Canada Exchangeco, as a result of the substantial economic and voting equivalence between the Exchangeable Shares (and ancillary rights) and shares of Spinco Common Stock. The relevant continuous disclosure, insider reporting, audited financial information and other relevant information will be provided in respect of Spinco.

## **Decision**

Each of the Decision Makers is satisfied that the test contained in the Legislation that provides the Decision Maker with the jurisdiction to make the decision has been met.

The decision of the Decision Makers in the Jurisdictions under the Legislation is that the Continuous Disclosure Relief, the Insider Reporting and Filing of Insider Profile Relief, the Audit Committee Relief, the Certification Relief and the Corporate Governance Relief are granted to Newco Canada Exchangeco provided that:

1. Spinco is the beneficial owner of all of the issued and outstanding voting securities of Newco Canada Exchangeco;



2. Spinco and/or banks, loan corporations, loan and investment corporations, savings companies, trust corporations, treasury branches, savings or credit unions, financial services cooperatives, insurance companies or other financial institutions are the beneficial owners of all the issued and outstanding Class C Preference Shares;

3. Spinco is an SEC issuer with a class of securities listed or quoted on a U.S. marketplace that has filed all documents it is required to file with the SEC;

4. Newco Canada Exchangeco does not issue securities, and does not have any securities outstanding, other than:

(a) Exchangeable Shares;

(b) securities issued to and held by Spinco or an affiliate of Spinco;

(c) Class C Preference Shares issued in connection with the Proposed Transaction;

(d) debt securities issued to and held by banks, loan corporations, loan and investment corporations, savings companies, trust corporations, treasury branches, savings or credit unions, financial services cooperatives, insurance companies or other financial institutions; or

(e) securities issued under exemptions from the registration and prospectus requirement in section 2.35 of National Instrument 45-106 *Prospectus and Registration Exemptions*;

5. Newco Canada Exchangeco files in electronic format:

(a) a notice indicating that Newco Canada Exchangeco is relying on the continuous disclosure documents filed by Spinco and setting out where those documents can be found in electronic format; or

(b) copies of all documents Spinco is required to file with the SEC under the 1934 Act, at the same time as, or as soon as practicable after, the filing by Spinco of those documents with the SEC;

6. Newco Canada Exchangeco concurrently sends to all holders of Exchangeable Shares all disclosure materials that are sent to holders of shares of Spinco Common Stock in the manner and at the time required by U.S. laws and any U.S. marketplace on which securities of Spinco are listed or quoted;

7. Spinco:

(a) complies with U.S. laws and the requirements of any U.S. marketplace on which the securities of Spinco are listed or quoted in respect of making public disclosure of material information on a timely basis; and

(b) immediately issues in Canada and files any news release that discloses a material change in its affairs;

8. Newco Canada Exchangeco issues in Canada a news release and files a material change report in accordance with Part 7 of National Instrument 51-102 -- *Continuous Disclosure Obligations* for all material changes in respect of the affairs of Newco Canada Exchangeco that are not also material changes in the affairs of Spinco; and

9. Spinco includes in all mailings of proxy solicitation materials to holders of Exchangeable Shares a clear and concise statement that:

(a) explains the reason the mailed material relates solely to Spinco;

(b) indicates that the Exchangeable Shares are the economic equivalent to the Spinco Common Stock; and

(c) describes the voting rights associated with the Exchangeable Shares.

The further decision of the Decision Makers in the Jurisdictions under the Legislation is that the Insider Reporting and Filing of Insider Profile Relief be granted to Newco Canada Exchangeco provided that:

1. if the insider is not Spinco:

(a) the insider does not receive, in the ordinary course, information as to material facts or material changes concerning Spinco before the material facts or material changes are generally disclosed; and

(b) the insider is not an insider of Spinco in any capacity other than by virtue of being an insider of Newco Canada Exchangeco;

2. Spinco is the beneficial owner of all of the issued and outstanding voting securities of Newco Canada Exchangeco;

3. if the insider is Spinco, the insider does not beneficially own any Exchangeable Shares other than securities acquired through the exercise of the exchange right and not subsequently traded by the insider;

4. Spinco and/or banks, loan corporations, loan and investment corporations, savings companies, trust corporations, treasury branches, savings or credit unions, financial services cooperatives, insurance companies or other financial institutions are the beneficial owners of all the issued and outstanding Class C Preference Shares;

5. Spinco is a SEC issuer; and

6. Newco Canada Exchangeco does not issue securities and does not have any securities outstanding, other than:

(a) Exchangeable Shares;

(b) securities issued to and held by Spinco or an affiliate of Spinco;

(c) Class C Preference Shares issued in connection with the Proposed Transaction;

(d) debt securities issued to and held by banks, loan corporations, loan and investment corporations, savings companies, trust corporations, treasury branches, savings or credit unions, financial services cooperatives, insurance companies or other financial institutions; or

(e) securities issued under exemptions from the registration and prospectus requirement in section 2.35 of National Instrument 45-106 *Prospectus and Registration Exemptions*.

"Josée Deslauriers"

Director of Capital Markets

Autorité des marchés financiers