

Paul Richards

2007 AGM Speech

As you know, we were created in July '06 with the distribution of Canfor Pulp Income Fund units to the Canfor shareholders, representing 20% of Canfor's pulp business. Units representing an additional 29.8% of the business were distributed later that year on Nov 30th.

Canfor Pulp Limited Partnership is the second largest producer of Northern Bleached Softwood Kraft (NBSK) pulp in North America and fourth largest globally. We are also a leading producer of bleached and unbleached multiwall paper in North America.

The timing of the spinout of the Partnership was very fortuitous. Pulp markets were rising as a result of industry rationalization - especially in Canada. Almost 20% of Canadian capacity had been shut down over the last couple of years as a result of high costs, driven in large part by an appreciating Canadian dollar. Coupled with this firming price environment, there was, in the Interior of British Columbia, an abundance of sawmill residual fibre leaving a very favorable cost structure. In addition, the mills operated very well in 2006 setting a record for annual production volume which also had a positive impact on production costs.

When we combine this operational excellence with the favorable business conditions, the Partnership recorded net income of \$86.7 million for the six month period ending Dec 31/06. Based on the Partnership's results, Canfor Pulp Income Fund earned net income of \$20.6 million, or \$1.15 per Fund unit for the first 6 months of its existence, ending December 31, 2006. Distributions for the similar period were \$30.4 million, or \$1.24/unit. All of these financial measures were well ahead of expectations as stated in the Information Circular that described the spin out in April of 2006.

We have been able to continue with strong earnings early in 2007. I am pleased to announce the first quarter earnings for Canfor Pulp Limited Partnership were \$48.6 million. This, in turn, resulted with the Income Fund reporting net income of \$24.2 million, or \$0.68/unit. These results are similar to the fourth quarter of 2006, reflecting improvements in NBSK pulp market pricing and benefits of a weaker Canadian dollar, offset by moderately higher fibre costs and lower production due to scheduled maintenance downtime. The NBSK pulp market remains strong and announced April price increases are being absorbed by the market. This has allowed us to raise the monthly distribution from \$0.14/unit to \$0.18/unit. This is the third time in less than a year that we have raised the regular monthly distribution.

We owe our financial performance, in large part, to the customer base that has been developed over the years. We are ideally placed in the market with an end product use that requires a premium grade of pulp and a customer base that is generally very strong, and leaders in their field.

We are mindful, though, that our business is cyclical and that prices will follow economic cycles. We also face the challenge of a difficult U.S. housing market which is currently causing sawmill curtailments throughout Canada, including the interior of B.C. And in the longer term, we must ready ourselves for a post pine beetle world.

As we move forward, the management team will be working with the board to develop and implement operating and growth strategies designed to maintain our position as a top quartile performer, secure long term economic fibre supply, and continue to grow with a customer base and end product uses that are ideally suited to our premium fiber.

I would like to thank all of our employees who have worked so hard and achieved this excellent performance in 2006 and I look forward to another positive year in 2007.