

**CANFOR PULP INCOME FUND  
4TH QUARTER 2006  
RESULTS CONFERENCE CALL  
2/19/2007  
11:00 AM (EST)**

**PARTICIPANTS**

Paul Richards, President and Chief Executive Officer  
Tom Sitar, Chief Financial Officer  
Rick Remesch, Corporate Controller

**Operator:**

Greetings, ladies and gentlemen, and welcome to the Canfor Pulp Limited Partnership fourth quarter results 2006 conference call. Please be advised this call is being recorded at webcast live on [www.canforpulp.com](http://www.canforpulp.com). A recording of the call and a transcription will be available on Canfor Pulp's website. Also, the Company would like to point out that this call will include forward-looking statements so please refer to the press release for the associated risks of such statements. I would now like to turn the meeting over to Mr. Paul Richards, President and Chief Executive Officer of Canfor Pulp Limited Partnership. Please go ahead, Mr. Richards.

**Paul Richards, President and Chief Executive Officer**

Thank you, operator. Welcome, everyone, to the call. I would also like to make note also available to answer questions on this call are Tom Sitar, our Chief Financial Officer who is taking in the call in another location and I apologize if the way we respond is just a little bit off. We also have Rick Remesch, our Corporate Controller. Our comments today, unless otherwise noted, relate to Canfor Pulp Limited Partnership, of which Canfor Pulp Income Fund owns 49.8%.

First of all, an overview of the fourth quarter. It was strong for the partnership. We had sales for \$229 million, EBITDA of \$61.9 million, net income of \$44.8 million, and distributable cash of \$0.80 per unit.

In the quarter, the market continued to be strong. Demand in all regions is firm with causing inventories to remain low. NBSK list price for delivery to Northern Europe averaged \$730 for the fourth quarter.



On the operations side, we had another strong quarter with no major maintenance taken in the quarter. The mills produced over 8,000 times more pulp than the previous quarter. Overall, it was a record year for production as the mills produced 20,000 times more than the previous annual record.

The paper mill also ran better this quarter than the last. The improvement resulted in 6% more paper being produced quarter-over-quarter.

Our cash conversion costs were higher in the fourth quarter than the third, due primarily to the normal seasonal increase in energy consumption and also normal increase in maintenance costs during Q4 over Q3. In general, Q3, because of vacations tend to be lower on the maintenance cost side.

An update of our co-generation project during the quarter. The project produced 877 megawatt-hours per day, approximately 9% lower than the previous quarter. The reduction in large part due to a four-day outage taken to install ash-handling system equipment, which we had talked about on the previous quarter. This installation went well and the ash-handling system start-up had been greatly reduced. So far in 2007, we are back up to operating in the mid-80% range of capacity and we continue to improve. As I mentioned on the last call, this does leave some additional improvements for a system, which we hope to resolve in the next three quarters.

Now I am going to turn the call over to Tom now and following his financial summary, I will return with some additional comments. Tom.

### **Tom Sitar, Chief Financial Officer**

Thank you, Paul. Good morning, ladies and gentlemen. I won't take you through all the details of our lengthy press release, but will try to provide some color on how the partnership performed in the quarter.

Before I start I would like just to remind you that all of the comparative and full-year statistics provided represent the NBSK pulp business for Canfor for all periods prior to July 1, 2006 on the partnership commence operations.

As Paul mentioned, income for the quarter was \$44.8 million with EBITDA of \$61.9 million compared to EBITDA of \$62.5 million in the prior quarter. On a quarter-over-quarter comparison, the small change in EBITDA had in it improvement of \$15 million from higher pulp and paper prices and favorable exchange rate and \$3 million improvement in productivity. These were all offset by higher fiber costs of about \$10 million, cash conversion costs of \$7 million, which is primarily energy and maintenance, as Paul

mentioned, and about \$2 million of other items.

For the pulp segment and the Canadian dollar terms, list price for NBSK pulp delivered to Northern Europe was approximately 4% higher in the quarter than in Q3.

Mill net and mill net returns were 6% higher as we shipped more of our product into the U.S. market.

For productivity, 7700 tonnes were lost in Q3, due to lightning strikes, whereas there was no significant downtime experience in Q4.

Quarter-over-quarter basis, cash conversion costs were 6% higher. Our base fixed price averaged in the high 60s per tonne in Q4 as compared to the low 50s in Q3. This is all on a basis before freight and adjustments.

When comparing full year to 2006 to 2005, cash conversion costs were 5% lower in 2006 and fiber costs were 18% lower in 2006.

Turning to the pulp segment. The pulp segment had improved EBITDA of \$2.7 million per quarter on a quarter-over-quarter basis and we did restate Q3 results to correct allocation, and so I direct you to the current press release for the Q3 comparative.

Strong results were due to a 3% higher paper price and increase in higher margin of bleached paper being produced and also an overall improvement in productivity. Production increased by 6% to almost 34,000 tons in the quarter. Cash conversions costs were approximately 6% lower in Q4 than in Q3. This was partially offset by higher slush, health prices, which is a transfer in market price from the PG Pulp.

Other things to note, cash flow from operations in the quarter of \$63.6 million, capital expenditures in the quarter were \$5.1 million, and for the year, \$19.6 million. For 2007, we expect our capital spending to be about \$29 million, \$29-30 million.

Regarding distributions for the six month ended December 2006, the partnership had cash flow from operations before working capital changes of \$122.7 million, from which capital expenditures and financing costs totaling 12.7 are deducted, to arrive at distributable cash of \$110 million. Actual distributions from the partnerships were \$88.5 million or 80% of distributable cash.

A short fall from our intended 90% pay-out is due to lower than projected capital spending, which we hope to carry over into this year or maybe the following year. Also, higher than expected earnings in the last part of December, which happened after we made the

distribution that we seen from December.

With respect to financing, the \$125 million promissory note from Canfor, was repaid in the quarter. This was replaced with a U.S. \$110 million private placement note. These notes bear interest of 6.41% and are repayable in full in 2013.

Lastly, a brief comment regarding the proposed Income Trust Legislation announced by the Federal Government. At this point, the proposed legislation will not change the way we plan to operate the business. We have some concerns with normal growth guidelines issued by the department in December, and we had expressed our views to them. We will be reviewing the alternatives open to us while we await the final legislation.

That's it for me for now. Back to you, Paul.

**Paul Richards, President and Chief Executive Officer**

Thanks, Tom. First comment I am going to make is a market outlook. In January, we announced price increases in all markets. The current price list in the U.S. is \$790. That is firm. The current prices in Europe are averaging around \$750. In Asia, it's \$720 to \$730 U.S. but that's on a net basis, so those are very good pricing.

We expect tightness in the market to remain at least through the first half of the year. Any softness made would occur, if it does occur, would be in the second half.

Fiber supply. You might recall on our last briefing we entered the quarter with concerns of a difficult lumber market and unrelated potential downtime taken by saw mills and impact on ship supply. This caused us to be in around with shipping program to cover some of the short falls that we did expect to occur during the holiday period.

In Q4, we did deliver 16,000 tonnes of round woodchips and we do expect in the first half of this year to deliver another 40 to 50,000 tonnes. We may continue to program, in the second half of 2007, depending on the sawmill operating environment, and as we look at it today, that is the strong likelihood.

Costs of round woodchips, delivered to the mill, are in the 120 to \$125 tonne rate. No guarantees that it will be higher or lower than that going forward, but that is what we experienced so far.

Current residual chip prices are 10 to 15% higher going into Q1 when compared to Q4. We still have concerns over the current lumbar environment, but to date, have not seen any significant curtailment taken by our suppliers to causing interruption in supplier chips.

Following the year-end curtailment, all our fiber inventories have been growing as we would expect at this time of the year.

We would like to comment on the interruption that we had with Intercon 10 days ago. We previously announced that there was a ruptured vessel at the plant on February 7. It took the mill down for less than a day and started up, we were producing unbleached pulp. As of the weekend, we had the equipment delivered and installed. As of yesterday, we started producing bleach pulp and we are at full production on bleach pulp as we speak today.

We are very fortunate that no one was seriously injured and I would really like to compliment the team at the mills for the great job they did, both in getting the mill up and running and getting the new equipment delivered and installed as quickly as they did. Total effect of this incident, at this time, we believe to be including both affect on revenue and impact on cost, approximately \$1.5 million.

Maintenance: As we go forward in Q1, we expect to take 8,000 tonnes of scheduled maintenance downtime between our Prince George and Intercon Mills. On an annual basis, our pulp production loss scheduled maintenance in 2007. It is expected to be 5 to 10,000 tonnes less than was taken in 2006. Probably the big difference between 2006 and 2007 is that in 2006, we took a large majority of our, in fact, probably all of our maintenance downtime in Q2 and this year it will be spread out much more evenly between Q1, Q2, and Q3 so we will see differences in those quarters.

CM Strike continues. We are very concerned about our ability to supply customers in the near-term. The inventories were not high to begin with and we are not able to keep up to their needs even with extra trucking. Again, we are very concerned about that. A lengthy strike can also impact fiber supply, chemical supply, and maybe eventually production capabilities. We are very hopeful for a settlement soon.

In overall summary, in our short existence, operations and markets have been very favorable. Mills are running well. Costs are in line, again due in part to the people that we have. They are very solid people we have running our mills and I would like to thank our employees for the great contributions.

Operator, I am finished so I would like to pass the call back to you and we are ready to take questions.

**Operator:**

Thank you, Mr. Richards, we will now take questions from the telephone lines. If you would like to ask a question, please press \*1 on your telephone keypad. If you are using a speaker phone, please lift the handset and then press \*1. If at any time, you wish to cancel your question, please press the #. Please press \*1 at this time if you have a question. There will be a brief pause as participants register for questions. Thank you for your patience.

Our first question comes from **Patrick Yung** with Raymond James. Please go ahead.

<Q>: Congratulations on a very strong quarter. First question. Your realizations are quite a bit higher than our forecasts. Can you perhaps comment a bit on your current geographic mix and any other factors that could account for this?

<A>: **Paul Richards:** We have generally been growing in the North American market, which means that the pricing is certainly favorable relative to Europe, maybe not quite so favorable relative to Asia, but certainly favorable to Europe. However, the real key here is our freight rates are lower. As a result, typically North American mill net revenues are, if we increase those, that customer tends to grow on the revenue side.

<Q>: All right. That's helpful. Thanks for that. My second question is, have you seen any impact on the chip quality due to the beetle?

<A>: **Paul Richards:** No, we have not seen any impact whatsoever in the quality of the pulp we produce. Our customers have not seen any impact. To the best of my knowledge, our competitors' pulps have not seen any. We do see a difference in the chip delivered into the mill in terms of if it's dryer so we do see a slightly less than 1% change in breakage. There is a slight increase in breakage, particularly at the Northwood Mill where we handle chips pneumonetically as opposed to Intercon and Prince George, where we handle them on conveyors. We also do have to cook the chips slightly differently so we have to have a little bit more delusion because the chips are dryer. In effect of the costs or the handling, there are modest changes, but nothing really that impacts the cost side. On the quality side, we have not seen any change whatsoever.

<Q>: All right. It's good to hear that. Finally, fiber cost environment. A recent conference call, another BC lumber producer quoted chips averaging about \$70 a tonne right now. Is that what you are seeing and what are your expectations in the near-term?

<A>: **Paul Richards:** I believe he is probably quoting the price at the saw mill delivered into mill as probably a little bit different depending on your locations and frankly, delivery costs can vary substantially from one location to another and one region to another. In general, our prices are very similar to that. Other prices in the region are similar to that and

in the short-term, we expect to see two things drive that. One will be, our mill net revenues as they continue to grow, we would expect to see slight improvement increases there and also depending on the housing environment in the United States, as fiber supply tightens up, the market could tighten up again and prices could rise.

<Q>: Okay. Great. Thanks a lot for that. That's all I have.

<A>: **Paul Richards:** Okay.

**Operator:**

Thank you. The following question is from **Robert Duncan** from MGI Securities. Please go ahead.

<Q>: Good morning, gentlemen. Tom, I was wondering if you could just repeat some of the numbers that you gave in your presentation. The sequence of cash conversion costs, I think, on the pulp side and your capital expenditure for 2007.

<A>: **Tom Sitar:** The capital expenditure for 2007 is expected to be 29 to \$30 million. If I go back, this is the pulp segment you were asking, quarter-over-quarter basis cash conversion costs were 6% higher. I commented on the chip prices and that was essentially the comment on the pulp.

**Operator:**

Thank you. The following question is from **Randy Raisman** from Durham Asset Management. Please go ahead.

<Q>: Hi, how are you doing? Two quick questions. One is, when you gave the pricing by market, U.S., Europe, and Asia for where the prices are right now, can you just comment on where those were in Q4 and then how your production breaks out across those three regions and then I just have one other follow-up after that.

<A>: **Paul Richards:** Okay, I don't have the exact cost in pricing in Q4. I believe it's probably \$30 up quarter-over-quarter in that range.

<Q>: In each region?

<A>: **Paul Richards:** Let me ask Rick to look that up and try to get back to you later on with an answer on the call. In terms of our percentages, we continue to move up our percentages in North America so we are now in the 50% range, up from probably 40% a

year ago. In Asia, we are still probably in the 30 to 35% range. In Europe, we are probably down around the 15% range. We have been staying pretty constant in Asia and increases in North America and decreases in Europe. The differentials on the regions have been roughly the same in North America over Europe. Asia, in general, pricing has increased there at a more brisk rate than it has been either in North America or Europe.

<Q>: I guess just the next question is, as I think about the comment that you guys made about chip pricing being maybe 10 to 15% higher in Q4 off of like a high \$60 base, so that should get maybe a \$9 or \$10 increase in chip prices whereas our price on the pulp we are selling is up probably around \$30 a ton so we should be looking for Q1 to be an incremental improvement in EBITDA as the price increases more than offset the chip costs. Is that the right way to be thinking about it?

<A>: **Paul Richards:** I don't know if the numbers in the order that you mentioned are exactly the same but the principle is there. I think the thing with the fiber you have to be careful with, though, is that it's one thing to say that we are talking more 10% or 15%, but in fact, if saw mills take a lot more downtime, that could change the pricing structure altogether. Again, when we talk about chip prices, the percentages are good numbers. The actual chip price, remember it takes 2 tonnes of chips to make a ton of pulp or a little bit more than that, 2.1, so you've got to make sure you account for that.

<Q>: So it's almost a 2-to-1 kind of thing on the chip side. Okay. All right. Thank you very much.

### **Operator**

Okay. Once again, please press \*1 at this time if you have any questions.

The following question is from **Paul Quinn** from Salman Partners. Please go ahead.

<Q>: Thanks. Just a question on Asian markets. We have seen a big discount on it between soft wood pulp prices and hard wood. Can you comment on that?

<A>: **Paul Richards:** Well, the big discount, I think, my view would be the discounts between the two are more back to a normal basis. This time last year, in fact in some regions, hard wood selling at higher prices than soft wood, which was really more of the normal than the other way around. Today, you are maybe in the 70-dollar differential and I think there is going to be more pressure on that differential to grow because of the growing hard wood supplies from South America. At some point, there will be more substitution so if we go over \$100, I have seen some predictions where it will go up to \$150. I don't think it can sustain that kind of differential. As the differentials continue to grow, I think you will see

some movement in substitution. Paper makers don't want to make that substitution but at some price differential, they are prepared to sacrifice some degree of efficiency on the machines because of the cost change. I think that you are pretty close to what I would expect to be an ongoing differential over the next number of years, within \$20 or \$30 of that.

<Q>: Are you noticing any additional downtime at North America paper mills?

<A>: **Paul Richards**: Yeah, we have. We have seen a couple of mills take some down time and so we recognize that for our customers in North America in particular, it's a difficult environment.

<Q>: All right. That's all I have. Thanks.

**Operator:**

Thank you. The following question is from **James Keller** from Thermopolis Partners. Please go ahead.

<Q>: Hi, guys. Thank you for taking my call. You mentioned in your comments that you expressed your ideas on normal trust growth to the government. I was just wondering if you could give us an idea of what those thoughts are?

<A>: **Paul Richards**: Tom, do you want to comment on that?

<A>: **Tom Sitar**: Well, currently the guidelines that the Department of Finance has put out basically say that for any of the trusts, to issue additional equity will be limited to 40% of the market capital outstanding at October 31. That's a bit of an issue for us and we are trying to get them to review that. In terms of the rest of it, we will need to see what the final legislation looks like. As with most trusts, we have a number of alternatives of how we look going forward and then the trusts convert back and we are evaluating all those options.

<Q>: Great. Thank you.

**Operator:**

Thank you. The following question is from **Pierre Lacroix** from Desjardins Securities. Please go ahead.

<Q>: Thank you very much. Good morning guys. I would like you to go to the second price increase you saw on the chip side. You are mentioning right now we are at 70 and

Tom mentioned 141 per ton. What is the second increase you saw in the summer? What is the current one?

<A>: **Paul Richards:** Well, first of all, the 2 numbers you quoted are probably not comparable. \$120 to \$125 is for round woodchips. It has no bearing on the chip market. You need to take that number and set it aside. What we are saying is that the base price of chips, which is what we pay the saw mill before delivery, if you go back into before the housing markets had trouble, probably the prices were in the \$35 to \$45 tonne range, depending on where you are in the region. In fact, the spot price was even below that. We are aware of it. As we are looking today, I think that the number quoted is the \$70 from another producer is probably fairly close to what's going on in the interior British Columbia region. There is some range, of course, in that. That has been phased in over a period of time. Again, we are only talking about the interior British Columbia region. The regions outside of that are different entirely.

<Q>: Okay. Excellent. Thank you very much.

### **Operator**

Thank you. The following question is from **Gordon Hoekstra** from The Prince George Citizen. Please go ahead.

<Q>: Can you give a little bit more information on the CN strike? I know it is a little bit sort of forecasting. What point would you expect the strike to start giving you material problems?

<A>: **Paul Richards:** Well, I have a concern today just about getting fiber pulp to our customers, especially the ones that have long freight runs into Eastern Canada or the U.S. These are long runs. There are more delays. That is the first area that I have a concern is actually getting the pulp to our customers and our customers are already being nervous. Their inventories that they normally have are down. If this carries on, I am not sure what alternatives there are, because this is a strike across the country. This is the first area that I have the greatest concern. In terms of inbound supplies, we have a concern with chips at further locations, the same kind of thing. We have a reasonable balance with fiber today between car deliveries and chip deliveries, rail deliveries from further locations. If you strip that for any period of time, that could pressure on our own chip inventory. If in fact we continue to have problems in delivering pulp and pulling it away from the mill, we could potentially produce pulp and store it outside or store it in other warehouses locally and just use trucks to get it around. I am hopeful that the rail strike on outbound deliveries does not impact the production site and we would build up inventories, and they would eventually be sold be the market is high. In the very short term, it is really getting product to the customer

that is the biggest concern I have.

<Q>: I've got to ask one more question. Are there any realistic options in terms of trucking to Edmonton and trying to get on another rail line for Vancouver.

<A>: **Paul Richards:** We are taking all the options we can but to start with, we are doing far more trucking to Vancouver than we did before and in fact, we are trying to have almost 100% of our deliveries so that frees up rails for other locations because the rails system is tied up right here in Vancouver. We are also trucking to Edmonton. We are trucking wherever we can. Trucks also become a limitation because everybody else is trying to do the same thing. There is a limit to how much trucking we can do. Even if we were to eat, in which we are eating incremental costs of that trucking, it's not so much the costs, it's just the availability.

<Q>: All right. Thank you very much.

**Operator:**

Thank you. The following question is from **Mark Bishop** from RBC Capital Market. Please go ahead.

<Q>: Thanks. Good morning. A couple of questions. First maybe for you, Tom. I am just wondering. The SG&A was a little higher than we expected for this quarter. Is there an annualized number that we should be looking at for 2007?

<A>: **Tom Sitar:** Probably a \$16 million is not far off for the year. The 3.9 I believe that we had in the quarter is probably not far off on quarter basis.

<Q>: Okay. For the capital that of \$29 to \$30 million, I am just wondering if you can identify any of the major projects within that?

<A>: **Paul Richards:** Yeah, for sure. We have one project at Northwood working on the evaporators that will run in and around the \$8 to \$10 million range, not that we are actually spending that, we understated our capital in 2006 and we don't want to do that again. We want to make sure that we find good projects to work on, not because we are trying to save the spending, we want to make sure we are doing the right job. We have one project that will eat up a pretty good chunk of that and we have another one that we are reviewing right now in the \$2 to \$3 million range. What we are not concerned about is the maintenance spending but it's an incremental \$5, \$10 million that we want to get that are really cost reduction or production improvement. We are really focusing on making sure we get some of those projects out.

<Q>: So what is the breakdown, then, Paul on discussion in maintenance for that \$30 million?

<A>: **Paul Richards:** Well, it changes in a number of areas but in general, I would say 18 to 22 for mandatory, non-discretion and on the rest is the improvement projects

<Q>: Okay. Just a question on the boiler reserve. I know on your perspectives, you identified I think \$4 million a year or something to that effect. Is that something that you are going to be periodically reporting as to where your boiler reserve is and the timing of the potential project?

<A>: **Paul Richards:** I am not sure how we are going to report to that. Maybe I will let Tom follow-up on that question. I will say that it's not just the boiler. We also have a reserve in there to upgrade precipitators that are included in that amount of money because we do know that there will be changes to their regulations so we anticipate that. Minimally, one of our precipitators will have to be upgraded. That is also included in that number. Tom, can you comment on both reporting?

<A>: **Tom Sitar:** Mark, it wasn't our intention to keep a specific reserve total running. It really is an indication to the marketplace, but that kind of a set aside is expected to be done on an annual basis. We don't plan to keep track of it specifically. It really is to ensure that we set aside cash for the future and that the marketplace understands that we are not going to distribute all of our available cash.

<Q>: Will that show up on the balance sheet as restricted cash?

<A>: No, it won't be restricted cash. It will be simply a growing cash balance.

<Q>: **Tom Sitar:** Just a cash balance.

<a>: Okay. Paul, just with respect to timing, do you have a timing yet in mind for any of the spending of that reserve capital or is it just too soon to start thinking about it?

<A>: **Paul Richards:** It's too soon to give you an answer but it's not too soon to start thinking about. We are in the process now of doing some long-term thinking about balancing off what we believe where fiber supply is long-term versus where markets are and what that means for our mills. We are thinking about it now. It is certainly too soon to say when that will occur.

<Q>: Does the reserve capital, is it ear marked essentially for replacement of the

precipitator and boiler which actively, would you categorize that as a discretionary or would that simply be replacement, almost maintenance cap ex? I guess what I am thinking is, it appears that the cash would build, potentially for capital that could either be used for major reinvestment and overhaul effectively of some of your infrastructure there versus capital that would be used for growth?

<A>: **Paul Richards:** It is a separate batch. The way it was designed was the \$4 over a 20-year period that we need to spend a certain amount of money, so it was based on a 20-year period. It would be used to do a major rebuild and the number was based on to keep the mill basically at the same design capacity, same operating rates, that's what that would take. I think part of what we would do is say is that really what we want to do. Would we spend a different amount of money, it may be more or it may be more or we may do something different? It's in a different category than the first \$30 million in terms of is it discretionary or non-discretionary. This is really a major re-build that would, again, that amount would leave us where we are. We would have to say, is that what we want to do or would we build one big new boiler and replace a couple. That would be a different amount of money but then certainly, you would have an entirely different profit center.

<Q>: Okay. Thanks very much, Paul.

**Operator:**

Thank you. Once again, please press \*1 at this time if you have any questions.

There are no further questions registered at this time. I would now like to turn the meeting back over to Mr. Richards.

**Paul Richards, President and Chief Executive Officer**

Thank you very much, operator. Again, I would like to thank everybody for being on the call and I appreciate your questions. Hopefully as we go forward, our business will operate as well. Again, Thank you very much.

**Operator:**

Ladies and gentlemen, this does conclude today's teleconference. You may disconnect your lines at this time. Thank you for your participation.