CANFOR PULP INCOME FUND
FIRST QUARTER 2007

CONFERENCE CALL
May 2, 2007
8:00 AM (PDT)

COMPANY PARTICIPANTS
Paul Richards, President & CEO**, Tom Sitar**, CFO and **Joe Nemeth**, Vice-President, Sales and Marketing

Operator: Good morning ladies and gentleman and welcome to the Canfor Pulp Income Fund first quarter results 2007 conference call. Please be advised this call is being recorded and webcast live at www.canforpulp.com. A recording of the call and a transcript will be available on Canfor Pulp's website. Although, 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's limited partnership. Please go ahead Mr. Richards.

Paul Richards, President & CEO

Thank you operator. Good morning, and welcome to Canfor Pulp Income Funds first quarter 2007 conference call. Also available to answer question on the all are Tom Sitar, our Chief Financial Officer and Joe Nemeth, our Vice President of Sales and Marketing. Our comments today and as otherwise noted, relate to the operating entity Canfor Pulp Limited Partnership, of which Canfor Pulp Income Fund owns 49.8%.

First quarter overview: A strong quarter for the partnership. Sales of $238 million, EBITDA of $60 million, net income of $48 million, and distributable cash of $0.73 per unit.

On the market; markets continue to be strong in the first quarter in all regions, inventory levels remain low. Northern Bleached Soft wood Kraft (NBSK) list price for delivery to Northern Europe, averaged US$ 757 per tonne in the first quarter. That is the highest level since 1995.

On the operations side: In the mills the Intercon and Prince George Pulp Mills took scheduled maintenance downtime of 8,500 tonnes in the first quarter. In addition, as previously disclosed there was a bleach plant rupture at Intercon effecting production by about 2,900 tonnes. Offsetting these losses was a record production quarter at our Northwood Pulp Mill. The net result of production dropped from Q4 of 2006 was 4,800 tonnes. Paper operations performed well meeting expectations.

Our cogeneration facility showed improvement in the quarter, following an ash handling installation and other modest changes, and is currently operating slightly above 90% of design and we are comfortable that it is sufficiently near expectations and will continue to improve, and we do not intend to continue to comment on it in further quarters.

I'm going to turn the call over to Tom now, and following his financial summary, I'll return with some additional comments.

Tom Sitar, CFO

Thank you Paul. I won't take you through all the details of yesterday's press release, but I'll try and provide a bit of colour on how the partnership performed in the first quarter. Before I start, I would like to remind you that the comparatives provided for 2006, represent the NBSK business of Canfor Corporation for any periods before July 1, 2006, when the partnership commenced operations.

Also, I would like to point out, that we have restated some of the prior period numbers to ensure comparability with the presentation we've adopted this year. There was no change in earnings, but foreign exchange translation adjustment on working capital items, where moved from the sales line to other income below the operating income line. And, so this item has now been removed from our reported EBITDA numbers. This is a presentation approach, more commonly used by other companies, and so we have adopted it as a the presentation treatment going forward.

As Paul mentioned, net income for the quarter was $48.6 million with EBITDA of $60.1 million compared to EBITDA of $58.1 million in the prior quarter. In the quarter-over-quarter comparison, the small change in EBITDA had in it improvement due to higher pulp and paper prices and favorable exchange rates. The exchange rate for the first quarter was lower, better for us then the fourth quarter of 2006. These were offset by higher fiber costs and the affect of maintenance downtime and a slight increase of administration costs.

To the pulp segments: This segment earned EBITDA of $63.8 million in the first quarter, which is $4.9 million more than the previous quarter. The increase is primarily due to higher pulp prices where realized prices in Canadian dollars were 6% higher in the first quarter than in the fourth quarter. But, the improvement in revenue was partly offset by higher fiber costs, which increased by approximately 10%, and higher conversion costs associated with lower production rising from the scheduled maintenance downtime. The downtime taken in the first quarter was at Intercon for 5 days in March, with another 3 days in April, and these 3 days will show up in Q2. The Prince George Pulp and Paper Mill took 5 days of downtime. So overall production was 4,800 tonnes less, and this increased cash conversion costs by approximately 2% on a quarter-over-quarter basis. Q4 of '06 did not have any scheduled maintenance downtime in it.

For the second quarter of 2007, we expect that our production will be reduced by approximately 7,500 tonnes for scheduled maintenance downtime, part of which, as I mentioned, is Intercon.

Now turning to the paper segment: The paper segment has EBITDA of $1.1 million, which is $1.9 lower this quarter over the previous quarter. The results were positively impacted by a 6% higher paper prices realized as price increases were announced in Europe. We expect prices to continue to increase with the recently announced price increase in North America, that is approximately a 5% increase. Unfortunately, the higher prices in the quarter were more than offset by higher slush pulp costs, which is transferred at market, and the impact of lower production due to maintenance downtime taken in Q1.

Other items that I wish to note: Capital expenditures in the quarter were $3.2 million. For 2007, we still expect our capital spending to be near $30 million. During the quarter, we also made a one-time contribution to a salary pension plan of $3.4 million. This had no earnings impact, but did reduce our distributable cash for the quarter.

Also, during the quarter, we adopted new Canadian accounting pronouncements relating to financial instruments, which requires that all derivatives be valued at fair market value at each balance sheet date. The effect of these revaluations are shown in other income below the operating income line, and are non-cash in nature and do not effect the distributable cash determination. Further details are in the notes of the financial statement. At the end of Q1, the only outstanding derivative instruments are hedging contracts to fix the price of natural gas for part of our requirements over the next 3-year.

Paul, now back to you.

Paul Richards, President & CEO

Thanks Tom. As we look forward in Q2, we see the markets in April announcing price increases in all markets. Current list price in the U.S. is US$810 per tonne. The current list price in Europe is US$ 780 dollars per tonne and Asia is averaging between US$ 730 to 770, but it is on a net basis. With the tightness in the market, we expect prices to remain firm through the first-half of the year, and if markets do soften, it would be late in 2007 and should be relatively modest.

On the fiber price again, as Tom mentioned, the price of fiber consumed in the mills was approximately 10% higher in the first quarter over the fourth quarter of last year. Expectations are that fiber prices will continue to modestly increase in the second quarter. As for fiber supply, in the first quarter we have seen saw mill curtailments taken as a result of poor lumber markets. We expect more of the same in the second quarter, therefore, in the first quarter we did increase, as we had said, our usage of round woodchips in the quarter, and we will continue the program through 2007. Plans for the second-half of 2007, will be an additional to 50 to 100 thousand tonnes of round woodchips.

CN strike in February had a significant impact on the inventory levels and delivering products to our customers, however, we managed to keep all of our customer supplied with pulp, to allow them to operate through the strike. We expect inventory backlogs to clear in the second quarter.

Distributions: Yesterday, we were pleased to announce the regular distribution will increase from $0.14 per unit to $0.18 per unit effective for May. This reflects our belief that markets will remain fairly strong overall for the remainder of the year.

In summary, the pulp markets remain strong. Our mills are operating very well, and our conversion costs are line. We are mindful however of the risks going forward, which are the strengthening of the Canadian dollar and saw mill operating rates effecting chip supply.

With that, I would like to pass the call back over to the operator and take any question you may have.

Operator:

Thank you. We will now take questions from the telephone lines. We will first take questions from the financial analysts followed by the media. If you have 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 anytime 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, while participants register for questions.

The first question is from **Mark Bishop** of RBC Capital Markets. Please go ahead.

<Q>: Thanks good morning. Paul a couple of questions. First, I just wanted to dig into the Kraft paper market a little more. For the benchmark pricing that I guess we should be using, is it the multi-walled product that listed on Pulp and Paper Week?

Paul Richards, President & CEO

Yes, I think that is a fair comparison.

<Q>: Your mix between Europe and North America for that product?

Paul Richards, President-CEO

Joe, can you answer that?

Joe Nemeth, Vice President Sales & Marketing

Yeah, Mark specifically are you talking the multi-wall only or our Kraft sack, because we have different end uses?

<Q>: Well I guess I'm looking at...

Joe Nemeth, Vice President Sales & Marketing

The overall.

<Q>: The overall mix from that machine.

Joe Nemeth, Vice President Sales & Marketing

Overall we are 75 to 80% North America, 20 to 25% export.

<Q>: Okay, so we have seen an increase listed for April and it looks like in the multi-wall, and did we see another increase in sac Kraft as well?

Paul Richards, President & CEO

Yes, across all grades.

<Q>: Paul, you mentioned the Northwood productivity being up and helping to off-set the impact of the downtime in the first quarter. I'm just wondering if there is any new numbers or maybe you could just reiterate the production levels we should be looking for on a full

year basis for each of the mills, given some of the productivity changes you've seen? Maybe on a run-rate basis today?

Paul Richards, President & CEO

Well I would like to say that we will continue the rest of the year at the record production rates, and I don't know that I would go that far, but I would say that the mills, and it is not just the Northwood mill. Apart from the outage that we had at the Intercon, Prince George has been running very well. The paper mill has been running well. Right across the board we are running well. So we do expect to see year-over-year gains in productivity. I don't know what those numbers are, but I think the levels in the first quarter represent, apart from scheduled shut-downs, would represent where I think we will be for the rest of the year.

<Q>: Great. Tom, I don't know if you can answer this question. The admin costs were a little bit higher than we thought, should we be annualizing that level or how do you explain for the increase?

Tom Sitar, CFO

Well we did make the comment that most of the increase relates to payments under compensation for plans for all the salaried employees. So essentially, we are under accrual at year-end. But you are probably fair in taking the quarter as a number to analyze.

<Q>: Great. Finally, just the pension Tom, is that something that we can sort of look at normalizing any further contributions, that was I guess the one surprise that came through in the distributable cash?

Tom Sitar, CFO

It was the one-time event, and it is not something that we expect to repeat, but it was done in order to eliminate any taxable in the partnership following the distribution totals. A one-time event, not expected to be repeated.

<Q>: Great, that is all I had.

Operator:

Thank you, the next question is from **Darryl Swetlishoff** from Raymond James. Please go ahead.

<Q>: Thanks, good morning. Paul, just a question on the realizations. We notice that your

realizations have improved, and in our model, it looks about 9% discount to list. We were wondering how much is due to current market conditions versus shifting to higher margin customers?

Paul Richards, President & CEO

Both of them. I don't know that I could separate out which is which, but they are both in tight.

<Q>: Okay, thanks for that. Secondly, you mentioned higher use potentially of whole log chipping. Can you give us an idea of what you expect, what proportion that might be for the year?

Paul Richards, President & CEO

You are now moving into a level that would be in the 5, 6, 7% range.

<Q>: Okay. Lastly, could you give us some colour on how your maintenance shuts went? Did you uncover anything significant with any of your pulp machines?

Paul Richards, President & CEO

No, and typically it is not the pulp machines. The issue is going to boilers and digesters. But, by in general we ran a little bit over in our Prince George, not over significant, did not find anything unusual. It is usually not so much on the maintenance side that we took extra time, it is just getting things up and running and moving, you always run into little things. We are just a little bit beyond where we thought, so we did not find anything unusual in terms of costs or anything unusual in terms of going forward, anything on the borders of digesters. I say the same thing on Intercon, in fact that shut-down was exactly on our schedule, which was great. Again, no substandard issues in terms of costs, pretty much on schedule. That mill shut-down, even though most of it was in Q1, did carry-over for 3 days into Q2 and it will show up in our Q2 numbers as Tom said. But no, that shut-down went well.

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

Operator:

Thank you. Once again, please press *1 if you have any questions or comments.

The next question is from **Randy Raisman** from Durham Asset Management. Please go ahead.

<Q>: Great, just given the tightness in supply with regards to pulp, you know on pulp capacity, can you comment on your outlook for consolidation or M&A in this space?

Paul Richards, President & CEO

Well yeah, the markets are tight. I think there may be opportunities for consolidation and there is still a lot of small mills out there, so I would expect to see some consolidation over the next few years. But the markets are tight, and the issues around costs in the Canadian dollar, there is a rising Canadian dollar. There is also concerns around rising fiber costs. I think there is still a possibility to see some rationalization as well, so I think you will see both as we go forward over the next few years.

<Q>: Do you see yourselves as acquirers or could you comment on sort of what type of buyers you think there are out there in the market at this point or in the near future?

Paul Richards, President & CEO

Well were we haven't done anything yet of course, and we would not turn done what we would consider to be a good opportunity. We will wait and see what happens.

<Q>: Okay, thank you very much.

Operator:

Thank you. The next question is from **Shawn Steaurt** from TD Newcrest. Please go ahead.

<Q>: Thank you. Tom a question on the capex schedule for the remainder of the year. As you ramp-up to hit the 30 million target, should we assume an even distribution through the remaining 3 quarters or will it be more second-half weighted?

Tom Sitar, CFO

It is not exactly even quarter by quarter, but I don't think it really matters much, because it really won't affect our distribution patters. So from that prospective, it is really not much of an issue, but it is more second-half weighted. No question.

<Q>: Okay, that is all I had. Thank you.

Operator:

Thank you. The next question is from **Eric Seeve** from Golden Tree Asset Management. Please go ahead.

<Q>: Hello, I have a few questions. The first is, with respect to presentation in your quarterly statements. When you lay out pulp production, does that include pulp that is being transferred to the paper segment, or is that only pulp that is being sold to third-parties?

Paul Richards, President & CEO

Only pulp sold outside.

<Q>: Great. Can I trouble you for a little bit more colour on what you are seeing in chip prices in April versus Q1?

Paul Richards, President & CEO

Chip prices are modestly increased 1 or 2%.

<Q>: Lastly, I saw a Canadian lumber company announce recently that they were going to rebuild a lumber mill that they had in Adams Lake, and for those of us who are unfamiliar with the geography and BC Interior, can you tell us if that is a mill that is.. What the proximity of that mill is to your mills, and if that is in a region where you buy chips from, or if it impacts the chip market?

Paul Richards, President & CEO

That location is in the interior British Columbia, but it is not a location that would normally supply us fiber and we would not be looking to them for fiber. You know, but in the big picture, there are overlaps, so there could be a slightly positive influence in the overall region, but for us, we don't see an event.

<Q>: Thanks very much.

Operator:

Thank you. The next question is from **Mark Bishop** from RBC Capital Markets. Please go ahead.

<Q>: Hi Paul, just 2 follow-ups. First on the downtime, I think Tom you have indicated 2Q, what is the remainder of the year look like?

Paul Richards, President & CEO

Probably and another 7 or 8 thousand tons of downtime after Q2. In Q2, we had the 3 days carryover in Intercon, we have basically one line of Northwood down for about 7 or 8 days, and then we have later in the second-half, we have the other line of Northwood and we have Prince George. So basically, almost equal throughout the year, but a lot different than last year, when we had it all in one quarter. The total year-over-year, we are about 7 or 8 thousand tonnes less than last year.

<Q>: Okay. A question for Joe. Just looking at how tight the markets are, obviously a great opportunity to be continuing to shift into the markets that obviously are more defensible in terms on their need for long fiber pulp. I'm just wondering if maybe you could outline maybe a little bit of potential progress you may have made in some of those markets? Tissue for instance, if you could describe if there is an opportunity there and where else you see opportunities?

Joe Nemeth, Vice President Sales & Marketing

Yeah, I think we spoke to you before that our strategy has been to diversify both from an end-use prospective, so that is tissue versus printing and writing and geographically. So that we are not overly dependent on one geography or exposed should that geography decline. I'm really talking globally, regionally, Europe versus North America versus Asia. We have, the last 4 years, and we continue to kind of manage that if you will, so to your point, we are as we stand today less exposed to printing and writing then we were a few years ago. I expect that trend to continue. We are less exposed let's say to Europe, where the biggest decline has been a few years ago, and positioned well in the future to continue making these shifts.

<Q>: Is the profile of the tissue market changing as well? It used to be I guess a tougher market to service, are you seeing opportunities to make better in-roads there?

Joe Nemeth, Vice President Sales & Marketing

Yeah, I am not sure I understand tougher market to service, I would say that structurally 2 or 3 dominant players that had a lot of purchasing power, which might make the discounts higher in the relative financial attractiveness low. I think that has changed across all end-uses with a tighter pulp market. So they are more open and flexible for discussion. What is attractive about tissue, as you know it is very stable and they buy the same amount basically whether it is a strong market or a weak market.

<Q>: Great, that is exactly what I was looking for Joe. Thanks very much.

Operator:

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

Paul Richards, President & CEO

Thank you very much operator. There are no questions from the media or others?

Operator:

I apologize, sir, there is one question from the media now. **Gordon Hoekstra** from Prince George Citizen. Please go ahead.

<Q>: Good morning gentlemen. Just a couple of quick questions. I just wondered if you could maybe give a little bit more information about what kind of impact the Canadian dollar might have on your earnings there? Obviously there some that is above $0.90 cents and there is talk that it could go higher before the end of the year.

Paul Richards, President & CEO

Well we are not sure where it is going to go, and what I would say is, there is a possibility that depending on the timeframe, it could go in either direction, helpful or it could be harmful. In the shorter-term, I think as the Canadian dollar rises, we will be harmed in terms of the net revenues will go down. However, the longer-term rise in the Canadian dollar has actually helped the lower cost producers, which we are one. It meant that they higher cost producers had a difficult time to survive, and there has been some capacity reduction. So in the short-term we would see some negative impact on our revenue, but again, we are a relatively low cost producer, so that we are more readily able to sustain this. If it goes to high, when we take a look at other producers out there, there are a lot of people that are very marginal today, and they have a difficult time to sustain. I think the price of pulp has followed the rise in the Canadian dollar, so a real over the longer-term or meeting the longer-term if there is rising Canadian dollar I think we would see a rising Canadian pulp price.

<Q>: One more question, just on sort of the consolidation front. I wasn't quite clear from an earlier question, whether Canfor Pulp would be sort of on the acquisition trail or be open

to be bought by someone else? Whether those are both options or just one of those?

Paul Richards, President & CEO

We are not commenting on either end of that. We are not going to speculate that we are for sale that would be a discussion you'd have with Canfor Corp. At the other end, we have said all along that if there are opportunities, we will look at them. We are really focusing today on making sure that we run our operations very efficiently and effectively, but if something comes along that makes sense; we would not be adverse to looking at it.

<Q>: Thank you.

Operator:

Thank you. Once again, please press *1 if you have any question or comment.

The next question is from **Paul Quinn** from Salmon Partners Incorporated. Please go ahead.

<Q>: Yeah thanks. Yeah, 2 easy fiber questions. Just whether you noticed any changed in chip quality with the mountain pine beetle? Secondly, just the cost difference between what's your fiber input from the area sawmills in whole log chipping?

Paul Richards, President & CEO

Again, as of today, we have not seen any change in quality or anything related to mountain pine beetle. Again, the fiber does get older. We do know that there are some pulp grades that have seen the change and some of them would be they would see the change for example even on the blue stain. On the Kraft pulping side, we are not seeing that at all. Again, have not seen anything else. In particular the customers are not seeing a change in quality, and that is really the most important thing to us.

Your other question was related to the cost. Again, as we've said in the past, typically round woodchips are in the $120 type range, give or take 5 or 10%. As the residual chip continues to increase, the differential has been narrowing. So we are looking at 20 to 30 dollar differentials between a round wood residual and a round woodchip. Or saw mill residual and a round woodchip.

<Q>: Great, thanks guys.

Operator:

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

<Q>: Hey guys thanks. Just a real quick update on.... Are you guys having any issues with the beetle kill through your pulp machine?

Paul Richards, President & CEO

No, in fact that is really what the previous caller was talking about. We are not seeing anything in our mill in terms of pulp quality or anything in terms of the cost aspect in our mills.

<Q>: Okay, thank you.

Operator:

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

Paul Richards, President & CEO

Well we would like to thank everybody for being on the call, and again, we were very pleased with our first quarter results and we hope to continue to see 2007 continue the way it has gone so far. Again, thank you very much for participating on the call.

Operator:

Thank you. The conference has now ended. Please disconnect your lines at this time. Thank you for your participation and have a nice day.