



**Canfor Pulp Income Fund  
Q3-2007 Conference Call  
October 23, 2007 10:00am (PST)**

**Company Representatives**

Paul Richards – President & CEO

Tom Sitar – CFO

Joe Nemeth – VP, Sales & Marketing

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**Operator**

Good morning ladies and gentlemen. Welcome to the Canfor Pulp Income Fund third quarter results 2007 conference call. Please be advised that this call is being recorded, and webcast live at [www.canforpulp.com](http://www.canforpulp.com). A recording of the call and any transcripts 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 risk 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.

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**Paul Richards *President & CEO***

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

Yesterday we reported sales of \$229 million, net income of \$33.2 million, and adjusted distributable cash of \$0.50 per unit. EBITDA was \$48.8 million. For the third quarter, the mills ran at record operating rates. Manufacturing costs were slightly improved, and with better productivity and lower energy and other costs, offsetting the increase in fiber costs. Markets continued to be strong in all regions with supply of NBSK pulp snug, inventories have risen in a seasonally slow period to 27 days, still below the 30 days considered to be a balanced marketplace.

As for our mills, the Prince George Pulp and Paper Mill took its annual scheduled maintenance downtime, which amounted to 4,000 tonnes in the third quarter, with a further 4,000 tonnes of downtime carried forward into the fourth quarter. No issues arose from the downtime and the mill is running well. Based on the performance of the mills thus far in 2007, we continue to be ahead of last year's record production.

Paper operations also performed well, meeting expectations. The average cost of fiber increased in the quarter, due to a greater volume of whole log chip deliveries. We are anticipating the strong Canadian dollar and low housing starts will potentially reduce sawmill operating rates. Similar to the comments we made a year ago on this call, we also anticipate sawmill curtailments to be extended through the upcoming Christmas holiday season.

To this end, the whole log chipping program was expanded, and chip inventories were increased from a normal nine or ten-day level in Q2, to an 18-plus day level at the end of Q3. We expect to see these levels grow to more than three weeks, as a buffer to the previously mentioned sawmill curtailment setting in.

Again, due to the anticipated sawmill curtailment possibly extending into 2008, going forward the whole log chipping portion of our deliveries could increase from an annual level of around 5%, to as much as 10 or 15%, which was the level we operated at in Q3.

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

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**Tom Sitar CFO**

Thank you, Paul. I won't take you through all the details of yesterday's press release, but I would like to highlight several areas, and provide some comments on how the partnership performed in the third quarter. Before I start, I would like to remind you that the comparatives provided for 2006 represent the NBSK business of Canfor Corporation for all periods before July 1, 2006, when the partnership commenced operations.

Net income for the quarter was \$33.2 million, versus \$35.9 million in the second quarter. EBITDA in the third quarter was \$48.8 million, compared to EBITDA of \$51.7 million for the prior quarter. On a quarter-over-quarter comparison, the lower EBITDA reflects the negative impact of the rising Canadian dollar, of approximately \$10 million, and the increase in fiber costs, both of which were partially offset by the increase in higher U.S. dollar pulp prices, improved mill productivity, and reduced spending.

Now some comments first on the pulp business. This segment earned EBITDA of \$51.6 million in the third quarter, which is \$3.3 million less than the previous quarter, although list pulp prices in U.S. dollar terms were 3% higher, the 5% rise in the Canadian dollar meant realized pulp prices were 2% lower. Total manufacturing costs improved slightly. Negatively impacting the EBITDA was a 4% increase in fiber cost in the quarter.

However, more than offsetting the increase in fiber was lower spending and improved operations, which resulted in conversion costs being 6% lower. Scheduled maintenance downtime taken in the third quarter, reduced pulp production by approximately 4,000 tonnes. We expect Q4 an 8,000 tonne reduction in pulp production for scheduled maintenance work at Prince George Pulp, about 4,000 tonnes, and one line at Northwood, about 4,000 tonnes.

In the Paper segment, the Paper segment had EBITDA of \$900,000, which is the same as the previous quarter. The increase in sales prices during the quarter were able to offset the rising Canadian dollar, as realized sales prices were flat quarter over quarter. Sales volumes were 14% lower this quarter, due to changes in scheduled production runs and some shipping delays. Orders continue to be strong, despite the scheduled maintenance work done in the quarter, productivity improvements made at the paper machines, resulted in production levels being about the same quarter over quarter.

Now some other items I would like to highlight. Capital expenditures in the quarter were \$6.8 million, and \$17.1 million on a year-to-date basis. Please note that you will not see these numbers directly in the cash flow statement, as this statement doesn't show capital expenditures which were not paid for in cash but were accrued. Details of capital spending are now shown in Note 14 to the financial statements of the Partnership. For 2007, we still expect our capital spending to be about \$30 million, and Paul will discuss this shortly.

The presentation of distributable cash shown in detail on Page 14 of the press release, was amended during the quarter to adopt the recently issued guidance by the Canadian Institute of Chartered Accountants. It is not a dramatic change in our presentation, but it does require us to show standardized distributable cash, which is cash flow from operations after working capital changes. Whereas our past practice has been to exclude working capital changes. We will show that calculation, and call the results adjusted distributable cash. I would like to stress that this change in presentation does not change the way we determine or set our monthly distribution.

Back to you, Paul.

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**Paul Richards *President & CEO***

Okay, thanks, Tom. On the market side, the current list price delivered to the United States is \$850 a tonne, and in Europe it is \$830. With Asia averaging \$740 to \$780, but on a net basis. These prices are all in U.S. dollars, and are firm.

Looking forward, we believe the market will remain in balance, as curtailment enclosures in the paper sector in North America and Europe, and price sensitivity in Asia are balanced to the threat of further curtailments and closures on the supply side, due to fiber supply issues, and the impact of the Canadian dollar.

A little bit on the capital side, we are running low on our targeted \$30 million spending. We do expect to spend \$30 million of capital in 2007. We have three large projects, relatively large project underway for which timing of shutdowns resulted in Q4 spending. Examples of these on Prince George Pulp and Paper, an upgrade at that paper line, to improve both quality and productivity was completed during the shutdown ending here in October, and that has already begun starting up and is in its optimization phase. During the same maintenance shutdown at Prince George Pulp, we began an improvement project on a precipitator. This work will be completed this month, and it will improve environmental performance and energy costs. Finally, during the Northwood shutdown, which is ongoing today, we will install a Black Liquor concentrator, which will begin operation later this week upon mill startup. The Project will reduce chemical costs and improve productivity. These projects are in the \$10 to \$15 million range in total.

As many of you know, this is Tom Sitar's last conference call with Canfor Pulp. We would like to thank Tom for all of his efforts. In his short time here he was instrumental in the spin-out of CPLP. He established our financial house by arranging financing and set up many processes and procedures. Tom will remain close by at Canfor Corporation, and I hope that I will be able to draw upon his valuable counsel if necessary.

We are pleased to have Terry Hodgins join the team. As many of you know, prior to Tom joining us Terry was involved in Canfor Pulp's creation. So combining that with his extensive experience in the forestry business, we are fortunate to have Terry's help, as we conduct a thorough search for a permanent CFO.

Yesterday we announced a monthly distribution for October of \$0.14 per unit. This is down from \$0.18 the previous month. Despite strong operations and relatively strong pulp market, we have been up against a strong Canadian dollar. So with the dollar at par or beyond for the near term, the Board felt it was prudent to reduce the distribution.

That wraps up our comments, and we are ready to take questions. Operator, I will pass it back to you.

**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. (OPERATOR INSTRUCTIONS) The first question is from Patrick Yung from Raymond James. Please go ahead.

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**Patrick Yung *Raymond James***

Good morning. Just a couple of questions on the wood chips. First of all, in terms of whole log chipping, what percentage are you guys at now, and how high could you theoretically get to, and are there any capital costs associated with that?

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**Paul Richards *President & CEO***

Well, we are at 15% right now, which is a level that is allowing us to grow our inventories at a fairly good rate. I don't know that there is a limit to how far we could go. We would have to grow it in, it depends on how we want to do it. We could bring in other portable chippers, or actually try to do some at sawmills. I don't think that the capital cost would be very high. It would probably be more concerned with operating costs.

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**Patrick Yung *Raymond James***

All right, that is helpful. And an unrelated question, how flexible is your maintenance downtime? I am asking that from the perspective of in case there is any fiber supply availability issues. Could you shift around your curtailments to avoid any significant loss of production?

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**Paul Richards *President & CEO***

Well, the major maintenance, we could shift them around by a matter of weeks. For example, next year in, I don't think we have a shutdown in Q1, but in Q2 we would be dealing with a major shutdown at Northwood. We could probably move that around within a month or so, moving it forward several months might be tricky, in terms of getting equipment in, but typically within a matter of a few weeks, we could move around. I don't know that we could move it by quarter. So Northwood would be the first shutdown we take, and that will be in Q2.

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**Patrick Yung *Raymond James***

That is helpful. And on the other, excluding fiber costs, I noticed your conversion costs probably dropped about 4% quarter-over-quarter. Can you talk a bit about nature of your productivity gains, and maybe a bit about the ramp-up of the Co-gen facility at Prince George?

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**Paul Richards *President & CEO***

Well, okay. Generally all of the mills are running well, so that automatically helps your operating costs, and you will see reductions right across the board. Your labour is down, overtime is down, maintenance costs are down. Seasonally in Q3, because of temperatures, you will find normally energy costs will be lower anyway.

On the Co-gen facility, September is an example, is the month that for the first time we achieved 100% of target for the Co-gen. In the quarter, we were around the 97%, 97 to 98% range for the quarter. So we have continued to move up on that, and we would continue to improve upon that as we go forward.

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**Patrick Yung** *Raymond James*

That is good to know. Great. That is all I had for now. Thanks a lot.

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**Operator**

Thank you. The next question is from Vik Kumar from Soundpost Partners. Please go ahead.

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**Vik Kumar** *Soundpost Partners*

Hi. Excuse me. Just wanted to make sure I got the wood chip numbers right. So you guys are already in Q3 were running at that 10 to 15% level, so should we be expecting whole log chipping to be increasing further in the future, or is that the level it needs to be for now?

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**Paul Richards** *President & CEO*

Of course that will depend on sawmill curtailments. We raised it to that level in anticipation of shutdowns going to come up. Well there certainly have not been the level of announcements that would cause us to go any higher than that today, but with the Canadian dollar where it is and housing starts where they are, we really don't know where that is going to be. We are saying now that level has allowed us to increase our inventories to a higher level than we have had for some time. If we have to go further we will have to settle, depend on where sawmill announcements come in.

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**Vik Kumar** *Soundpost Partners*

Right. Sure. But for now, given the sawmill numbers that you are expecting, you are comfortable with the inventory build, and you are expecting that to keep building until necessary, I guess?

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**Paul Richards** *President & CEO*

Yes, right now what we are building for, in my view, what typically happens, happens in many years in my past, is around the Christmas time, instead of maybe one week down time, we could have ten days. Those are the kind of things that I know will happen, but in addition to that we expect to see a range of other announcements.

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**Vik Kumar** *Soundpost Partners*

Great. That was my only question. Thank you.

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**Operator**

Thank you. The next question is from John Sherman from DDJ Capital. Please go ahead.

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**John Sherman** *DDJ Capital*

Hi, guys. I was taking a look at your balance sheet, and I was hoping you could comment on your cash position. It seems like it has been growing pretty steadily over the last couple of quarters. What is your strategy there?

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**Tom Sitar CFO**

Well, you have to remember we still have a fair bit of capital spending taking place in Q4, so I would expect that cash position to reduce towards year end, as we catch up on some of the capital spending, and if you look at where we are on distributable cash to what has been distributed, that will bring down the cash as well. So it won't be, I don't expect it to build. It should decline somewhat toward the end of the year.

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**John Sherman DDJ Capital**

Okay. And just a reminder, how much in capital expenditures are you expecting in the fourth quarter?

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**Tom Sitar CFO**

It will be approximately 13 to \$15 million.

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**John Sherman DDJ Capital**

Thank you.

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**Operator**

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

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**Mark Bishop RBC Capital Markets**

Thanks. Just two questions on the markets. First, clarification. I think, Paul, you referred to a kraft paper price increase in the quarter. I guess I didn't see that on the print, so was that just more of the previous implementation coming through in the quarter, and then if you could comment also on price announcement by Canfor-Tolko, I think it is a Jan. 1 implementation, is that correct?

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**Joe Nemeth VP, Sales and Marketing**

Yes. Mark, it is Joe here. Two different things there. The first is what happened in Q2, there was a price increase that went through in July, July/August, and fully implemented in September. As you may recall that was \$20 up in the United States, and \$30 in Europe. So that is where the list price has increased. Asia was flat.

In terms of the second part of your question, now you are referring to sack kraft, not Pulp. So the announcement for January 1st ...

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**Mark Bishop RBC Capital Markets**

Sorry, Joe, actually both questions really related first to kraft paper, because I think there was a reference to a paper pricing increase that was offset by a Canadian dollar. It wasn't clear that, I didn't see that in the kraft list prices. So I just wondered how that unfolded.

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**Joe Nemeth** *VP, Sales and Marketing*

No, you are correct. I apologize. On the sack kraft paper side, the announcement was in Q2, but as you probably know there are announcement periods and phase-in periods, so we really saw the majority implementation of that price increase in Q3.

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**Mark Bishop** *RBC Capital Markets*

Great. Then, sorry, the \$50, you see that being phased in then starting Jan.?

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**Joe Nemeth** *VP, Sales and Marketing*

We expect similar types of things that have happened in the past, so assuming it is successful, and there is no reason why it shouldn't be, you would see full implementation through the quarter. So you would see it fully implemented by the end of the quarter, and that is \$50 in the U.S. and 60 euros in Europe.

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**Mark Bishop** *RBC Capital Markets*

And now turning to Pulp, Joe, just thinking about your mix, where you are, maybe second half '07, and then where you might be in '08, between say, some of the tissue markets, I think you have been focusing getting a little bit more traction, versus some of the other traditional markets, which might be declining on the coated ground wood side. How do you see your mix changing?

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**Joe Nemeth** *VP, Sales and Marketing*

Well, as you probably know, we have steadily and have been publicly stating that we wanted to optimize that mix, and in particular, grow tissue, and so we have been doing that over the last few years, and we expect that to continue. But this is evolution, not revolution. It is small changes, gradual increases over time.

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**Mark Bishop** *RBC Capital Markets*

Okay. Great. Thanks very much.

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**Operator**

Next question is from Sean Steuart from TD Newcrest. Please go ahead.

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**Sean Steuart** *TD Newcrest*

Thank you. Just a few questions, guys. First of all, I noticed on the freight per tonne shipped, it was actually down a little bit quarter over quarter, which is the opposite direction we would have expected. Can you go into a little bit of detail as to why that happened this quarter?

**Paul Richards** *President & CEO*

That is the benefit from a rising, strengthening Canadian dollar. A lot of our freight is in U.S. dollars, so that is the offset.

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**Sean Steuart TD Newcrest**

Okay. And couple questions for Joe, I guess. Just following on Mark's question, can you talk about your geographic sales mix on the Pulp side, Joe, and if you have shifted more to North America, continue to do so this quarter, and if you can give us any sort of percentage breakdown between North America, Europe, and Asia?

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**Joe Nemeth VP, Sales and Marketing**

Yes, we have had a strategy over time, because of our size to really have a balanced approach to the market. So with the major markets being Europe, North America, and Asia, we keep and intend to keep a significant position in all three markets.

Having said that, over the last three or four years, you can see that from our statements, we have grown our share of North America, it being a freight logical market, and as you know, it being the market where the predominance of shuts have occurred, and therefore tighter supply conditions have been prevalent. So the last few years we have grown in North America, and it is our biggest third, if you will, of our geographic mix.

Going forward, we are obviously going to look at a whole bunch of factors, whether it is price relative to supply and demand, freight logical markets, and that is going determine where we optimize, but we don't see ourselves making any dramatic shifts going forward.

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**Sean Steuart TD Newcrest**

Then just finally, Joe, I guess on the November increase announcements we have seen for softwood so far, I am not sure if you guys have announced, but any thoughts given the current market tightness, your views on how much more upside we have in pricing here?

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**Joe Nemeth VP, Sales and Marketing**

As you probably all are aware, Tembec and Rottneros have publicly announced \$20 up for November. And I think some sort of price announcement was expected. We are basically monitoring the situation, and we will make our decision shortly.

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**Sean Steuart TD Newcrest**

Okay, that is all I had. Thank you.

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**Operator**

Thank you. (OPERATOR INSTRUCTIONS) The next question is from Paul Quinn from Salman Partners. Please go ahead.

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**Paul Quinn Salman Partners**

Yes, I just had actually two questions to beat the whole log chipping to death here. What is the I guess the 15% of supply that you are currently getting, is that running your chippers at max capacity, or what is max capacity?

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**Paul Richards** *President & CEO*

Max capacity obviously can vary, it is running, we have actually three or four different locations that are bringing in round wood chips. The one that is the largest is at PG Saw, and it is running pretty much around the clock now, and it probably has a total capacity when it is running full of 250,000 tonnes a year. So that one location could probably get to us itself to 10% of our total supply. We have fiber coming in from other facilities as well.

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**Paul Quinn** *Salman Partners*

Okay. And just over on, you mentioned downtime announcements, or the downtime schedule for next year, Northwood a major shut in Q2. Any possibility of letting us know on sort of a quarterly basis what 2008 looks like for maintenance shuts?

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**Paul Richards** *President & CEO*

Yes, I can give you high level. I don't have the exact details because we haven't finalized our annual plan, and I will try to compare it to this year. This year we had two major shutdowns, one at Intercon, and one at Prince George, and a minor, which was Northwood, and we split the Northwood up into one line, and another line in two different locations. Basically every year all three mills will take downtime, but there will be two majors and a minor.

So next year the two majors will be Northwood and Intercon, and the minor will be Prince George. I can't tell you the exact, Northwood is scheduled for the second quarter. I am pretty confident of that one. So that is our biggest. It is taking a major, as compared to a minor this year.

You are looking at additional tonnes out there, and I can't give you the exact numbers, but it will be more than this year in total. In Q3 and Q4 in some combination, we will have the major at Intercon, and the minor at Prince George. I don't have those details in front of me.

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**Paul Quinn** *Salman Partners*

Great. That is all I had. Thanks.

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**Operator**

Thank you. Media members, (OPERATOR INSTRUCTIONS) There will be a brief pause as they register for questions. Thank you for your patience.

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

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**Paul Richards** *President & CEO*

Thank you very much, operator. I would like to thank everyone for taking the time to participate in the call. If you have any follow-up questions, please get in touch with us. So thank you very much.

**Operator**

Thank you. The conference has now ended. Please disconnect your lines at this time. We thank you for your participation, and have a great day!