

**Canfor Pulp Income Fund
Q1-2008 Conference Call
Vancouver, BC
April 30, 2008 at 8:00am (PST)**

COMPANY REPRESENTATIVES:

Paul Richards - President and Chief Executive Officer
Terry Hodgins - CFO and Secretary
Joe Nemeth - Vice President Sales and Marketing

Operator

Good morning, ladies and gentlemen. Welcome to the Canfor Pulp Limited Partnership, First Quarter Results 2008 Conference Call. Please be advised that 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. 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.

Paul Richards - President and CEO:

Thank you, operator. Good morning and welcome to Canfor Pulp Income Fund's first quarter 2008 conference call. Thank you for joining us today, also available to answer questions on the call are Terry Hodgins, our Chief Financial Officer and Joe Nemeth, Vice President Sales and Marketing. Our comments today unless otherwise noted relate to the operating entity Canfor Pulp Limited Partnership, of which Canfor Pulp Limited Partnership, of which Canfor Pulp Income Fund announce 49.8%.

Yesterday, we reported for the first quarter sales \$211 million, net income just over \$43 million, adjusted distributable cash of \$0.60 per unit and EBITDA of \$42 million. Let us first talk about our operations. Despite the January 15th fire to the chip handling facility of Prince George Pulp and Paper. The pulp mills operated very well for the quarter. Northwood and Intercon operating to expectations. We did not take any schedule maintenance to downtime during the quarter at these mills.

Due to a fire at Prince George however, which occurred on the 15th approximately 37,000 tonnes of pulp and paper production was loss. The pulp line at the mill was down for almost six weeks, while the paper line was down for two days. Pulp was supplied to the paper line from our Intercon and Northwood mills. The loss production is covered generally by insurance. Terry will have details for the accounting of the fire later on. During February, we installed a temporary chip handling facility at the Prince George Mill, which resumed albeit at a reduced production level.

The temporary facility does have some limitations and this is not quite as efficient as the permanent facility as a result production on the line is approximately 90% to 95% of capacity and we are working hard and making improvements to systems to get with to run at higher rate as we can. We believe our permanent facility will be operational by the fourth quarter of 2008. I will remind you that incremental costs and loss profitability from the temporary facility continued to be covered by business interruption insurance.

Cash conversion costs during the quarter were slightly higher than the prior quarters, primarily due to higher energy and chemical costs and looking ahead to the second quarter, we expect an increase in maintenance costs from the major maintenance downtime at Northwood and mini-maintenance down turn Intercon. For the second quarter we expect Northwood will be down longer than normal as before major maintenance and also install modest capital projects to de-bottleneck the mill.

Intercon just completed a 3.5 day shutdown in the second quarter for scheduled maintenance work. Total production in the second quarter is expected to be reduced by approximately 30,000 to 35,000 tonnes through these scheduled maintenance shuts.

Now, turning fibre, fibre cost in the quarter were above 3% higher than the fourth quarter. This was the result of higher prices paid for residual chips from the sawmills and having more higher cost whole log chips delivered. However, this will offset by lower cost from efficiencies gains, at the whole log chipping facility. Whole log chips supplied both 28% of our delivered chips for the quarter. As a result of the downtime caused by the fired Prince George mill and the maintenance work being done in this quarter, chip inventory is now over four weeks of supply. Well, this is higher the amount with further some of curtailments we believed we have well position for the reduction in sawmill chip delivery in the next coming month. Going forward we expect chip inventories to fall and by year end be at normal level.

I will turn in the call over to Terry now and following year financial summary. We will return with some additional comments.

Terry Hodgins - CFO:

Thank you Paul, the details of the commentary on the first quarter results are included in yesterday's press release. I would like to highlight some specific events during the quarter and their impact on the financial results. Net income as reported was \$43.5 million compared to \$12.1 million in the fourth quarter of 2007. EBITDA in the quarter with \$42.5 million compared to \$27.9 million in the prior quarter. The quarter-over-quarter improvement in the EBITDA reflects a 5% higher Canadian dollar pulp price realized from higher U.S. dollar list prices and that weakening of the Canadian dollar during the quarter. The weaker Canadian dollar contributed approximately \$4 million to EBITDA. The higher sales prices were offset by 4% increase in manufacturing costs, the increase in fibre as Paul has already mentioned was also compounded by increases in chemical and energy prices.

During the quarter we lost approximately 35,000 tonnes of pulp production and 2,500 tonnes of paper production from the fire at the Prince George Pulp and Paper Mill.

With an estimated 12.4 million profit reduction resulting from the lower production and sales. This 12.4 million loss was offset by business interruption insurance except for a \$1 million deductible. The net 11.4 million in profit loss is recorded as revenue and is included in EBITDA, operating income and distributable cash. In addition to recover the cost of the construction of permanent system to replace the assets destroyed, we accrued a properties damage insurance receivable of \$11.6 million, which is net of an aggregate policy deductibles of \$3.25 million. The net property damage insurance proceeds, less the write-off of the net book value of the assets destroyed is recorded as a non-operational gain of \$8.5 million and as such is not included in EBITDA or distributable cash.

In summary, we accrued \$26 million in insurance proceeds in the quarter with \$6.2 million received in the quarter and an additional \$16.2 million advance collected in April. As Paul as mentioned we are planning to have the new chip facility operating by Q4 of this year the estimated \$15 million cost of the new chip handling facility will be financed from insurance proceeds except for the previously mentioned \$3.25 million deductible. Our share of the funding the \$3.25 million deductibles will come from our 2008 capital budget.

Going forward there will be further business interruption insurance claim until the permanent system is fully operational, there will also be an adjustment to the net operating gain, which will be increased once the final cost of the permanent system is determined. In summary, the net financial impact of the fire in the quarter is a charge of \$1 million to EBITDA, operating earnings and distributable cash, for the business interruption insurance deductible. We will manage our 2008 capital program to absorb the \$3.25 million property damage deductible within our annual \$30 million capital spending guideline. As we have previously stated the impact of the fire will not have a material impact on cash distributions going forward.

With respect to capital where we only spent \$3.2 million Q1 we expect to spend a total of \$28 million to \$30 million in 2008. The remaining capital expenditures including the \$3.25 million portion of the new chip in feed system that PG, should be spent evenly over the remaining three quarters of 2008.

Now with some comments on the segments, first to the pulp business. This segment earned EBITDA of \$44 million in the first quarter, which is \$12.8 million more than the previous quarter. As already discussed this is a function of higher realized pulp prices offset by a higher manufacturing costs, namely energy and chemicals.

For the paper segment, the paper segment had EBITDA of \$2.3 million, which was \$2.2 million more than the previous quarter. The higher EBITDA is attributable to an 8% higher shipment volumes and realized sales prices being 10% higher.

The increase in sales prices was a result of weaker Canadian dollar in the quarter and increases in realized sales prices from a higher percentage of fleets paper sales, higher list prices in appreciation of the Euro, back to you, Paul.

Paul Richards - President and CEO:

Thanks Terry. Looking at the markets the list price delivered to United States and Northern Europe at the end of the first quarter was \$880 U.S. with Asia averaging \$750 to \$800, but on a net basis, again these prices are in U.S. dollars. A price increase of \$40 per tonne to \$920 or as announced for Europe for April the 1st. This move is being driven by a higher fibre costs and the impact of the strong Euro in relation to U.S. dollar. Some of that increase is going through.

Current inventory levels for northern bleached softwood kraft is 33 days, higher than the 30 days to be considered the balanced market in our view. For the second quarter we expect inventory levels to drop as mills, like ours, take production downtime for maintenance while demand remain steady. Looking forward for the rest of 2008, we believe demand will remain steady and with much global northern bleached softwood kraft supply uncertainty due to currency fluctuations and fibre cost increases. We expect prices to remain in a relatively tight range.

As many of you know the collective agreement we have with our unions will be expiring effective today. We have a good relationship with our unions and believe the successful conclusion and negotiations can be achieved during the second quarter.

Lastly, we continue to look at opportunities to develop incremental energy projects. The challenge in committing capital to a large project comes with the uncertainty of residual fuel available due to current sawmill operating rates, and increasing delays in spiraling cost of new equipment. However, we continue our analysis and response to BC Hydro's call for power for economically attractive projects both large and small scale.

Operator, that's wraps up our prepared comments and we are ready to take questions.

Operator:

Thank you Sir. We will now take questions from the telephone lines. We will first take questions from the financial analyst followed by media (Operator Instructions) Thanks for your patient. Our first question is from Vic Kumar from Soundpost Partners. Please go ahead

Vic Kumar – Soundpost Partners:

Hi, guys. I just wanted to get some more colour on cost, I just on your view. Are you seeing further energy in chemical price increases into Q2 over the levels in Q1?

Paul Richards - President and CEO:

In the case of chemicals we are seeing some energy also in price increases I don't think we are seeing further increases in Q2, but the Q1 were reasonably substantial 8% -- 10%. Energy Well we really don't know where they are going to go now we do have some hedging in place for natural gas and that's what our - with our energy

cost comes from mainly. So, we are not sure where they are going to go but, we -- they could rise a little higher.

Vic Kumar – Soundpost Partners:

And then what about fibre, do you expect prices are going to increase or should that stay pretty fine?

Paul Richards - President and CEO:

Well, my guess is they could continue to raise, and again there is a couple of drivers for that one of them is that there is still a try to some degree to more in that revenue and those if the Canadian dollars stays where it is and that price increase in Europe go through we could see a modest increase from that side but I think the bigger driver will be the somewhere operating mix if they continue to take downtime and if there is any further downtime announced then we could see further price increase. But on the side of the raw wood chips we don't see any escalations on those in fact we are hoping to try to have slightly lower cost for those as we get more efficient.

Vic Kumar – Soundpost Partners:

And are you going to be if any greater percentage of those on round wood chips than the 28% in Q1?

Paul Richards - President and CEO:

I think it's probably going to be relatively closer to that number. It won't be driven by getting more round wood chips as much as it would be driven by sawmill operating rates.

Vic Kumar – Soundpost Partners:

Okay and then the shutdowns you are having during Q2, will that be any extra cost hitting with P&L due to that or is that just lost production [Indiscernible] about it?

Paul Richards - President and CEO:

Well, there will be some cost involved in that as well.

Vic Kumar – Soundpost Partners:

Okay. One last question I guess -- I have a feeling that there might be some discounting going on off list prices in - North America maybe issues that something you guys are seeing or not really?

Paul Richards - President and CEO:

First of all, there is always discounting in North America and Europe, but what happen is the standing way that pulp is price -- there is a price a list price and then there is a discount and the discounts can range probably below in the high-single

digits or low -- or low double digits to maybe the mid-double - maybe the mid teens and the difference would be depending on the supply and demand relationship with the customers in terms of volumes and whatever. So that -- I think your question is probably you better ask "our discounts changing". Because they are doing now and I think that were probably there is a little bit extra of volume as we said inventories have gone from the 25 day range up to 33 so, there is a little bit more, say the customer has little bit more opportunity to find pulp and there are some people out there offerings like the higher discounts on spot prices. I don't think we are seeing changes in the contract prices, they're really on spot basis. There is probably a little bit better price out there. Joe would have anything to that.

Joe Nemeth - Vice President Sales and Marketing:

Yeah, I think the last part that Paul made is probably what you're picking up on. Is that there are couple of mills that restarted in Canada as you know or increase the capacity, they don't have contract position, so they are selling solely into the spot market and when you do that in a balanced to slightly over supplied market you are going to see on the spot basis some higher discounts. Contract business is flat, we are not seeing higher discounts, but that's spot business is probably bringing the average up a little.

Vic Kumar – Soundpost Partners:

How much of your business is the contract?

Joe Nemeth - Vice President Sales and Marketing:

100% into North America.

Vic Kumar – Soundpost Partners:

Great. Those are my questions. Thanks guys.

Operator:

Thank you. (Operator Instructions) Our following question is from Benoit Laprade from Scotia Capital. Please go ahead.

Benoit Laprade – Scotia Capital:

Thank you, good morning. Just on the pulp side, can you just comment on what - where your pulp inventory levels are and what's your expected production in Q2 trying to get a feel for or how much stronger pulp shipments could be in Q2 versus Q1 or result of downtime in all inventory changes?

Paul Richards – President and CEO:

Well, maybe if I can ask Joe to answer that. I believe our inventory that we showed at the end of Q1 was about 109,000 tonnes. I would expect to see a pretty substantial drop in Q2 because of the downtime we are taking so in that 10 to 15,000

tonne range at least now. Again I would like to make comment on about how your measure inventory? Inventory is just not what we have sitting in the warehouses, but it's also what's on vessels and what's in transit in and the large majority of our inventory probably 75% is what's in transit as opposed to in actual inventory and so the amount of inventory we have available is not nearly that kind of levels that that we look at in terms of what we shown at books because it's still allow until the customer gets it so, maybe Joe you can puts a few points on that.

Joe Nemeth - Vice President Sales and Marketing:

Yeah, just to understand you were asking that sales perspective, sales volume perspective?

Benoit Laprade – Sceptia Capital:

Yes, because obviously production will be impacted in Q2 by downtime so I was wondering how much inventory you had to make up for a loss production?

Joe Nemeth - Vice President Sales and Marketing:

Yeah. We have a little as Paul said we are starting at 109 which is, 10% to 15% of above let's say the target put for us. We will see that come down to the 10 to 15,000 tonne a number over the next three months. So, I would say in total sales shipments Q2 and Q1 are not can be that the similar.

Paul Richards – President and CEO:

But when we end up in inventory at the end of Q2 I would expect this to be – us to be a lower, but also at the lower end of our target. We will - I think will be in the 80s may be low 90s and we really need a minimum of about 85,000 tonnes almost in inventory to be able service to our customers. Because of that the inventory that's in transit.

Benoit Laprade – Scotia Capital:

Okay, but shipments want to improve materially from Q1 and Q2?

Paul Richards – President and CEO:

Not a lot.

Benoit Laprade – Scotia Capital:

Okay. Thank you.

Operator:

We will now take questions from the media. (Operator Instructions) The following question is from Gordon Hoekstra from the Prince George Citizen. Please go ahead.

Gordon Hoekstra:

Good morning gentlemen. Just one - one question, just wondering if you give a little bit more information on the - on the development of the Co Gen Project you mention about issues around supply from saw mills, how much of an issue is that and is it a matter of when the industry may turnaround is that all factored into that?

Paul Richards – President and CEO:

Well it's an issue from a range of – range of perspectives the first thing is we don't know what's available from a residual sawmills perspective and that it really impacts although minimally pricing. So pricing from residual - from sawmills is different than if we have to go out and make up that – that volume from almost an actually higher steaming fibre for power reasons. So the wood questions becomes what is the price of fuel, there is fuel available just what the price. So, if you say we are not going to have with the volume, we think we are going to have from saw mill and we are going to have to make that up from what is ordered in the first slot, and actually how this is for that, then it really affects the price you need from Hydro in order to make the project successful. Then you start giving into a – into levels that maybe BC Hydro might be a little bit uncomfortable with in terms of what they would have to pay for power and we understand that. So, it's not quite - it's not quite as simple as saying here is so much fibre out there today because with that --we don't know how long or housing stocks are going to be with there and how long those saw mills will run at this current rate. So it's really impacting the price. The other piece of what I said was as we spent more time and getting a little bit more detail into the delivery time and cost of projects. With rising energy costs and rising the material costs the actual project cost is starting to escalate is also. Both of those pieces are making it's difficult to really pin point about the returns will be especially on large projects where you are looking at maybe going to 50 megawatts or more. Our smaller projects 5, 6, 7 megawatts which you know there is some fibre development rate today and much easier to be confident that you can develop project that has a good return and there is aided benefit to everybody.

Gordon Hoekstra:

When you are mention about going out into the forest and getting, what are you talking about like harvesting -- dead standing pine and shipping that for the facility?

Paul Richards – President and CEO:

Exactly Correct.

Gordon Hoekstra:

Yeah, okay all right. And do you have a, so, are you still is this still a project that's on the books that you would like to do?

Paul Richards – President and CEO:

Well, that's still a project we are looking on, because as we started we go from looks very good and all the way the return starts to get lower or you have to, you will be looking at higher price improve for pile and so, we kind of go back and for us whereas they could land up or we are still as we work more closer to get that kind of that numbers it becomes a little trick here only because of the lack of certainty what is the fibre availability from what's source so if we want to say when we can get the fibre below we are only going to going to go with the higher cost probably because we knows there. Then –it's really a matter of a wood price to power that it takes for that.

Gordon Hoekstra:

And is there any preference between whether -- on or there you would want to go for a larger project or one of these smaller ones?

Paul Richards – President and CEO:

Well again it starts to become matter of returns. That if they higher a projects that has is lower returns that in the -- and same probably would apply with Hydro well both kind of pricing what they want to pay. If they can get and let's say they can get at 10 megawatts for \$150 then if they get 100 megawatts with \$250 might just use both, where they want to grow. So, there will probably be discussions as we go forward on those kinds of things. We also have - we are competing now with higher, we think charge for our carbon tax. It's now also competing on projects let's say well above trying to reduce our usage of natural gas and if we can reduce natural gas that they have the higher return now that we are looking at our carbon tax coming down the road and also we have the requirement to reduce our greenhouse gases. You don't reduce greenhouse gases by making more energy. I mean, you would certainly help the overall climate change, but if you have to reduce green house gas and by certain amount of timeframe we get that by reducing our natural gas usage. So, now we have the competing use for the same, for the same resource.

Gordon Hoekstra:

Is there any sense when the decision on this might be made?

Paul Richards – President and CEO:

Well there is the – a decision the Hydro is looking for a response I believe in June. So, we have to have more clarity to the projects we think make sense and as at least the first go on in June.

Gordon Hoekstra:

Thank you very much.

Operator:

Thank you. There are no further questions registered I would like to turning the meeting back over to Mr. Richards.

Paul Richards – President and CEO:

Well, thank you operator and again we'd like to thank everybody for taking the time to join us today and if you have any follow-up questions please don't hesitate to call. Thank you very much.

Operator:

Thank you gentlemen. This concludes today's conference call. Please disconnect your lines and thanks for your participation.