

**CANFOR PULP INCOME FUND  
Q3 - 2008 Conference Call  
8:00am (PDT) October 28, 2008**

**COMPANY REPRESENTATIVES:**

Paul Richards - President and CEO  
Terry Hodgins – CFO

**Operator:**

Good morning, ladies and gentlemen. Welcome to the Canfor Pulp Limited Partnership, Third Quarter Results 2008 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 a transcript will be available on Canfor Pulp's website ([www.canforpulp.com](http://www.canforpulp.com)). 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, Sir.

**Paul Richards – President and CEO:**

Thank you, Operator. Good morning and welcome to Canfor Pulp Income Fund's third quarter 2008 conference call. Again, thank you for joining us today. Our comments will be unless otherwise noted relate to the operating entity Canfor Pulp Limited Partnership, of which Canfor Pulp Income Fund owns 49.8%. Also with me today is Terry Hodgins, our Chief Financial Officer and in addition we have our new Vice President of Operations, Brett Robinson. Brett takes on a newly created role within Canfor Pulp, is in charge of all of our operations. He was previously our general manager of the Intercon and Prince George Mill, and he has over 19 years experience in the industry. His primary focus will be to maintain our low cost and efficient operations and identify and deliver on improvements through capital projects.

Now on our operations, yesterday we reported for the third quarter sales of over \$215 million, net income of just over \$11 million, adjusted distributable cash of \$0.53 per unit and EBITDA of over \$40 million.

On our operations during the quarter, our mills operated well. There was no scheduled maintenance downtime versus the 33,000 tonnes of scheduled maintenance downtime taken in the second quarter. With the higher production and decrease in operating, labor, and maintenance spending, manufacturing unit cost were lower in the third quarter than second.

As for the Prince George Pulp and Paper, we continue to operate with the temporary chip handling facility which reduced production by approximately 7,000 tonnes in the quarter. This is mostly covered by business interruption insurance. Our permanent chip

handling system is expected to be commissioned in the next few weeks. In fact, we are down today for that commissioning.

For the fourth quarter approximately 15,000 tonnes of pulp production will be taken out from our scheduled maintenance downtime at the Intercon and Prince George Mill. The scheduled maintenance work at Intercon has been completed and we'll use the downtime there to complete some capital projects which we'll increase production and reduced cost. The paper machine at Prince George during the quarter had a strong operating rate and set for record production. I'll also remind everybody that in the fourth quarter with the colder weather upon us, we'll start to consume more natural gas. This will cause an increase in the energy consumption for fourth quarter 2008 and first quarter in 2009.

Now on fibre, fibre costs in the third quarter were flat compared to the prior quarter. The percentages of whole log chips delivered were about 34%. Fibre inventories today are relatively high, with just over a month supply. But as with prior years, we expect saw mills will take downtime around the holiday season, which will draw down our fibre inventories somewhat. In addition, we began reducing delivery of our highest cost whole log chips. This should reduce a whole log portion of deliveries to just over 25% in the fourth quarter and will result in the modest fibre cost reduction overall in fourth quarter. We continue to believe we are well positioned to handle possible residual chip supply uncertainties caused by the weak US housing markets.

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

**Terry Hodgins – CFO:**

Thank you, Paul. Details on the third quarter results are in yesterday's press release. I would like to highlight some specific events during the quarter and their impact on the financial results. The Partnership net income for the quarter was \$11.1 million compared to \$18.2 million in the second quarter of 2008. EBITDA on the quarter was \$44.6 million compared to \$24 million in the prior quarter, and quarter-over-quarter EBITDA increase of \$16 million is the result, as Paul has mentioned, of no maintenance outages in third quarter compared to the 33,000 tonnes in the second quarter. Consequently in the third quarter we had lower unit manufacturing cost primarily in the areas of operating, labor, and maintenance cost. We also benefited in the quarter from a 3% weakening of the Canadian dollar against the US dollar. These were somewhat offset by higher fuel surcharges which resulted in higher freight cost to deliver chips to our mills and to deliver pulp to our customers. Despite lower fuel costs, it takes a month or so for the impact of the lower prices to affect fuel surcharges, but we are now beginning to see these lower fuel surcharges in the fourth quarter. Despite an increase in EBITDA quarter-over-quarter, the net income decline is caused by a change in the value of natural gas hedge contracts. So in the third quarter, the lower natural gas prices resulted in a reduction in the value of our natural gas forward contracts of \$12.7 million, whereas in the second quarter an increase in value of \$8 million was reported. These non-cash adjustments are direct results of changes in the price of natural gas as there are no significant changes in the contract that we had outstanding.

As Paul has noted here, were still operating with the temporary chip handling facility in the Prince George Mill, a financial impact discovered by business interruption insurance which amounted to \$3.5 million in the quarter, and this covers the impact of reduced production and some related additional expenditures. On a year-to-date basis, we have accrued \$18 million in business interruption insurance and to date, received \$12 million of advances under the claim.

The paper segment had EBITDA of \$5.3 million in the quarter which is \$2.2 million more than the previous quarter. The higher EBITDA is attributable to higher sales prices as well as lower manufacturing cost across all of the major cost components, a reflection of the strong operating performance in the quarter.

With respect to capital in the third quarter we spent \$5.7 million of our own money plus an additional \$5.7 million on a chip screening system which is funded by insurance. On a year-to-date basis, we have spent approximately \$19 million of our own capital. Total capital expenditures for 2008 are expected to be in the range of \$26 million to \$28 million, and this includes our \$3.25 million insurance deductible on the chip screening system.

A quick comment on our long-term debt, we have in the US \$110 million of long-term notes and a fixed interest rate of 6.41%. The notes mature in November 2013 with no repayment required before maturity. This facility and our bank operating line which matures in November 2009 at similar covenants. The two most significant things, a maximum debt on EBITDA leverage ratio and a minimum EBITDA interest coverage ratio on a trailing four quarter basis. We are still expecting to remain well within these covenants. For anyone interested to know more about the long-term note agreement can find it on SEDAR in a material change report in December 2006.

Last week, we announced the October distribution, which is payable in November, of \$0.12 per unit. Today we have announced distributions totaling \$1.20 per unit for the ten months in 2008. I remind everyone that distributions are based on our forecasted cash flow for the operations for the calendar year less interest charges of approximately \$7 million and capital requirement of approximately \$34 million, and that includes a provision for future capital. We will monitor closely the last two distributions for the months of November and December for 2008. The next distribution announcement will be approximately November 20<sup>th</sup>.

Back to you, Paul.

**Paul Richards – President and CEO:**

Thanks Terry. Now, some commentary on pulp markets, current USD list prices in North America \$850, in Europe \$830 and in Asia \$620 to \$720 range, which are on a net basis. However, growing pulp inventories continue to put pressure on prices. Realized prices in Canadian dollar turns are holding their own, despite the falling US dollar list prices, because of current depreciation of the dollar. The demand for pulp is softening in all regions and in most market segments. China has recently reduced its purchases significantly. And while we only supply 10% of our sales typically into China, reduced Chinese buying has been resulted in the global pulp inventory growth. We have seen

printing paper segment, which is the largest consumer market pulp, with lower demand in the third quarter. The tissue segment on the other hand has held up relatively well with demand continuing to grow modestly. As a result, softwood inventory levels have risen during the quarter and are now sitting at 36 days. Cost structures of many global producers, both hardwood and softwood, will put pressure on pulp mills to curtail operations. We believe this should provide some support for pulp prices in the near future. Over the long term we still expect demand for softwood pulp will increase in 1% to 2% range.

As a summary, in the near term pulp prices are okay in Canadian dollars. The problem is the slowing global economy which has lowered the demand causing inventories to build. Therefore, we'll look the balance rise of the inventory levels with production curtailments in the coming month of approximately 30,000 tonnes of pulp and 10,000 tonnes of paper. This is in addition to the 15,000 tonnes already taken out through maintenance of third quarter. Depending on inventory levels, some of these curtailments may be in the early first quarter 2009.

Operator, that wraps up our 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 financial analyst followed by the media. (Operator Instructions) Thanks for your patience. Our first question is from Stephen Atkinson from the BMO Capital Markets. Please go ahead.

**Stephen Atkinson – BMO Capital Markets:**

Thank you. Good morning. In terms of downtime, it would seem that most of the downtime in the fourth quarter would be taken at Prince George, would that be correct?

**Paul Richards – President and CEO:**

You mean the Prince George Mill versus the other mills?

**Stephen Atkinson – BMO Capital Markets:**

Yeah.

**Paul Richards – President and CEO:**

No, not necessarily. We can see a balance [across all mills].

**Stephen Atkinson – BMO Capital Markets:**

Okay. But you're taking down the paper mill for 10,000 tonnes anyway.

**Paul Richards – President and CEO:**

Well, not necessarily. I think, it's not necessarily, just in the fourth quarter over the next coming months so probably it will occur in fourth quarter. It might run in the first quarter. It will depend on where those inventories are. It will also depend on what makes the most sense in terms of mitigating the cost around that. So what the Prince George Pulp Mill would likely seasonal downtime at fourth quarter. One of the things I didn't say, offsetting of some of this, depending on whether we slow down or shutdown we may also be able to offset some of those costs with incremental power sale. So we'll be seeing how that may go.

**Stephen Atkinson – BMO Capital Markets:**

Okay. In terms of your work force, I guess as you take more downtime then you would be able to move from your less expensive wood which is basically what you are saying but then the other thing would be is the chip contracts tied to the formula?

**Paul Richards – President and CEO:**

Well, probably we're missing up a couple of things in here. First of all, we're cutting back on whole-log wood purchases and high-cost whole-log wood, and so they are not tied to any formula at all. Those are the high cost. So the way we look at this is when we look at our overall sales that last 5,000 tonnes of pulp is typically going to be sold in the [lower priced] spot market rather than contract price, and the last tonne of pulp is produced with the higher cost fibre. So the net here, when we look at it, it will moderate the overall impact. But the fibre prices today that we are talking and cutting back on our not-tied of the chip formulas to our high cost fibre we have.

**Stephen Atkinson – BMO Capital Markets:**

And so there are few other things, Paul. In terms of the other 75% then that would be tied to chip formula?

**Paul Richards – President and CEO:**

There is a chip formula, but today we're kind of override that because the formula is actually at a lower price than where the market is, and we've always said that it had to also be tied upon with the work or type of market, and we're really paying typically with the market price in the region.

**Stephen Atkinson – BMO Capital Markets:**

Which I assume is relatively flat?

**Paul Richards – President and CEO:**

Which is relatively flat. That is correct.

**Stephen Atkinson – BMO Capital Markets:**

In Canadian dollar terms?

**Paul Richards – President and CEO:**

In Canadian dollar terms, that's correct because it's based on our list. That's correct.

**Stephen Atkinson – BMO Capital Markets:**

Okay. Another question, Howe Sound Pulp Mill, you do the marketing for it, in a way you're balancing the curtailments with the Prince George Mill. Is that a completely different issue?

**Paul Richards – President and CEO:**

Yeah. We won't comment on Howe Sound on this call.

**Stephen Atkinson – BMO Capital Markets:**

Okay. I guess you get steady income from the marketing on that one.

**Paul Richards – President and CEO:**

That's correct.

**Stephen Atkinson – BMO Capital Markets:**

Okay. And then finally there was is the source of the letter of credit to BC Hydro for \$27.4 million. Can you talk about that?

**Paul Richards – President and CEO:**

I'll let Terry comment on that.

**Terry Hodgins – CFO:**

Yes, Stephen, that's originated when the Cogen project of the PG mill was originally put in place and as I can recall some of the funding for that project that was [indiscernible] at that time came from BC Hydro. That letter of credit is really there to support and security for Hydro, to really to support and in fact guarantee our continued production of power at that facility. The letter of credit reduces each year. I believe it was originally at 15-year contract and that letter of credit reduces over the term of the contract.

**Stephen Atkinson – BMO Capital Markets:**

Okay. I just thought of one other question. Sorry. In terms of insurance benefits where you've accrued \$18 million and you've received \$12 million does that mean that you're going to expect another \$6 million in the fourth phase.

**Paul Richards – President and CEO:**

That's what we expect. Typically the insurance company advances approximately 75% of what we claim as we go through the process and then, now that we're nearing the end of that time and the new chip screening system was in place, we will submit a final claim in the next few weeks. And sometimes, it would probably take, I'm going to say two to three months to get this thing finally settled, but I don't think that as an indication that we wouldn't receive a full amount that we've accrued.

**Stephen Atkinson – BMO Capital Markets:**

Sure. Thanks a lot.

**Operator:**

Thank you. The following question is from Herve Carreau of CIBC World Markets. Please go ahead.

**Herve Carreau - CIBC World Markets:**

Yes. Thanks. Paul. I just want to know what you feel is happening in China. Is that the cause by excessive inventories, collapse and demand, or more credit issues preventing some of the various to lend to the letter of credit or may be a combination of these three factors.

**Paul Richards - President and CEO:**

Yeah. I really don't know. It could be a combination of all three. As they said we are relatively a small player in China, about 10%. However, most of our businesses are typically contract and we're still doing that business but that part is under pressure for sure. What we do know is historically Chinese has been really great buyers and strong buyers and prior to the last three of four years, they would hold off buying and try to get the prices down and then come in with very large volume. That could be happening again. On the other hand, it could very well be that they're just seeing a slow down in their economy and that they did have some high inventories and this was not just typically buying or waiting to get prices down but may be there is a real reduction on to the markets. I'm not sure if I can really separate those things out. And perhaps we need a few months and we'll look back and know what's been going on but it could be some combination of all the components that you have mentioned.

**Herve Carreau - CIBC World Markets:**

Okay. Thank you.

**Operator:**

Thank you. (Operator Instruction) The following question is from Daryl Swetlishoff from Raymond James. Please go ahead.

**Daryl Swetlishoff - Raymond James:**

Well, thanks. Good morning. I understand New Page are very important customers. Can you give us some guidance on how you are buying and replacing those pulp volumes?

**Paul Richards - President and CEO:**

Yeah, well we have been looking large customers and certainly their decisions to reduce production or try to get the higher prices, is having an impact on shipments and particularly in second half of this year. We still have a firm commitment through the 2009 although the volumes are reduced from where we were. We are actively looking for other business. We are particularly looking for other contracts. We've been able to be picky in the past so we have to open that up a little bit but we are fairly confident as we get in the first quarter whatever pulp we still have left that we'll be able to pick up with other volume in other areas.

**Daryl Swetlishoff - Raymond James:**

Would you tend to concentrate on different buyers with [indiscernible] and perhaps increasing volumes, the tissue manufactures to take this as an opportunity?

**Paul Richards - President and CEO:**

Yeah. That's obviously one area and there are other areas as well. One thing that we do have, I think you know, we do have very good quality products so that finding areas in other to place our product is not that difficult. It will be all about what makes the most commercial sense.

**Daryl Swetlishoff - Raymond James:**

In our model, we see that you have the ability to pay over and above the \$0.12 that you currently pay for the balance of the year. Can you comment on how the board is currently thinking about special or supplemental distributions?

**Paul Richards - President and CEO:**

Well, first of all, it's difficult for me to predict where we'll be in the end of the year between prices and currencies changing on a pretty rapid basis. I really don't know where that number is going to be. So we'll be watching as we go along. In the past, what we said is we will pay and have paid what we could in order to make sure that we tackle the issue and utilize the capital cost allowance that's available to us. So we'll still be using the primary guide to make sure that we've used up what is there and whether a supplemental is even available, what remains to be seen. We haven't spent a lot of time talking about supplemental again it's difficult for us to predict exactly where the currencies and pricing or where this is going to unfold.

**Daryl Swetlishoff - Raymond James:**

And all the challenges we face. That's great. Thanks, Paul. I'll turn it over.

**Paul Richards - President and CEO:**

Okay.

**Operator:**

Thank you. The following question is from Paul Quinn from RBC. Please go ahead.

**Paul Quinn – RBC:**

Yes, thanks. You've mentioned incremental power sales. Can you quantify that amount?

**Paul Richards - President and CEO:**

No, I can't. I don't know. Not that I don't want to. Depending on how we do this. It's possible for us, for example today we produce steam and we use some of steam are processed and some are driven through generators. If we decide to our best interest to procure one part of the operation and use the steam to make more power...if that make sense then that's what we'll do. And it's not going to be in huge dollars but it's going to be something that helps the input, but it will not be in huge amount.

**Paul Quinn – RBC:**

When you say huge is that like one to two million or is that...?

**Paul Richards - President and CEO:**

Probably it will not exceed a million dollars.

**Paul Quinn – RBC:**

Okay. Where are you guys with BC Hydro on the biomass?

**Paul Richards - President and CEO:**

We continue to do negotiations on one project. We would expect to see some conclusions to that within the coming couple of weeks.

**Paul Quinn – RBC:**

That's all I have. Thanks Paul.

**Paul Richards - President and CEO:**

Okay.

**Operator:**

Thank you. The following question is from Richard Kelertas from Dundee Securities. Please go ahead.

**Richard Kelertas - Dundee Securities:**

Hi, good afternoon. What have you or the board been thinking about with the 2011 turn back on the income structure? At some point you probably have fair idea of what new structure or how are you going to go forward? Or what kind of form you want to take to meet that head on with that conversion that's coming out? Have you thought about it? Have there been any discussions? I'm sure but are there conclusions coming out yet or you're still in the process of examining them?

**Paul Richards - President and CEO:**

Well, we have some discussions on that. We have some pretty good looks. I think a couple of fundamental principles are that to convert early would not make sense unless there was transformative transaction, something that make sense for us to grow but mostly the major transaction, we would not convert early and so we would go to 2011. The other principle would be to remain as an income trust after 2011 would not make sense either and so we would likely to convert to a company rather than remain an income trust when the time comes. Basically the majority of our share holders said that they don't want to make that conversion early and so we wouldn't. So those are the two outlines of principles of where we are today and in that direction we're moving. If there were some acquisitions that would force us to detract us, it would be have to be a very, very good manufacturer to do it but other than that, we would probably be detract it for the 2011.

**Richard Kelertas - Dundee Securities:**

And stating that acquisition that's one of the three pros of your management philosophy, let's take one, obviously with this market now, there is going to be some opportunities, is there any specific reason that you would like to look at or would you like to take course if one became available?

**Paul Richards - President and CEO:**

We would limit ourselves to our region. We would take a look at any opportunity that might come up and evaluate it. Up to now obviously, we haven't seen what we would consider a very good opportunity.

**Richard Keletras - Dundee Securities:**

And you would want to continue to be in softwood, northern or would any grade right now appeal to you?

**Paul Richards - President and CEO:**

Well, we generally have said that hardwood looks like it's going to be difficult over the coming years with the growth from South America. Now a lot of that has been cut back and also the economy. We believe that the hardwood market is going to be difficult in the coming years. On the other hand, we believe softwood market has a lot of potential in the coming years and so softwood would certainly be looked out far more favourably than hardwood.

**Richard Kelertas - Dundee Securities:**

Alright. Thank you.

**Operator:**

Thank you. We will now take questions from the media. (Operator Instruction) Our following question is from Gordon Hoekstra from Prince George Citizen. Please go ahead.

**Gordon Hoekstra - Prince George Citizen:**

Well, good morning gentlemen. I just wanted to follow up on the question about the biomass cost. I'm just wondering if you can give any more details about the project that is being considered.

**Paul Richards - President and CEO:**

First of all, it's relatively small. I think as you go through the process, what's really been obvious is that you start to look at bringing in more hog fuel. The further you go the higher the cost is and it gets very great difficult to start the harvest hog fuel, bring it in and economically produce power that Hydro is prepared to pay. And so it's really going to be projects that are around the hog fuel that currently exist or relatively smaller projects so it's difficult grow in harvest incremental and be able to produce power economically.

**Gordon Hoekstra - Prince George Citizen:**

Is there any opportunity? I know there is (indiscernible) two-phase thing and then the second phase involves the potential new tenures. Is there any potential on the second stage or bigger type project?

**Paul Richards - President and CEO:**

We will still be looking at opportunities in stage two.

**Gordon Hoekstra - Prince George Citizen:**

Alright. Thank you.

**Operator:**

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

### **Paul Richards - President and CEO:**

Well, thank you very much operator. Again I would like to thank everybody for being on the phone and hopefully, we will continue to do the things we need to do today and be well positioned as the market turns around and I'm sure it will. Again thank you very much.