

**Canfor Pulp Income Fund
Q4-2008 Conference Call
8:00am (PST) February 18, 2009**

COMPANY PARTICIPANTS:

Paul Richards, President & CEO

Terry Hodgins, CFO & Secretary

Joe Nemeth, Vice President, Sales & Marketing

Operator

Welcome to the Canfor Pulp Limited Partnership fourth 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 the transcript will be available on the Canfor Pulp website. Also the company would like to point out that this call will include forward looking statements, so please refer to the press release for the associated risks of such statements. I would now like to turn the meeting over to Mr. Paul Richards, President and Chief Executive Officer for Canfor Pulp Limited Partnership. Please go ahead Mr. Richards.

Paul Richards

Well thank you operator. Good morning ladies and gentlemen and thank you for joining us today. Our comments today unless otherwise noted relate to the operating entity Canfor Pulp Limited Partnership, of which Canfor Pulp income fund owns 49.8%. Joining me today on the call are Terry Hodgins our CFO, Joe Nemeth, our Vice President of Sales and Marketing and Brett Robinson the Vice President of Operations.

Yesterday we reported for the fourth quarter sales of over a \$186 million, a net loss of \$26 million, adjusted distributable cash of \$0.02 per unit and EBITDA of \$9.8 million.

First of all operations: during the fourth quarter we took approximately 42,000 tonnes of market pulp production out which is the result of 16,000 tonnes of scheduled maintenance at the Intercon and Prince George Pulp paper mills and 26,000 tonnes of market curtailment. In addition there was 3,400 tonnes of kraft paper curtailed for market reasons. The market related curtailment was taken late in December 2008 and continued into Q1 of 2009 with an additional 14,000 tonnes of market pulp and 5,000 tonnes of kraft paper production curtailed. This downtime was taking to help balance our rising inventory levels caused by weak pulp and paper demand arising from the global economic condition.

As a result of the tonnes taken out in the fourth quarter, cash conversion costs were higher than in the previous quarter. Terry will provide the details of the change in cost with the downtime certainly the largest reason for the higher cost in the quarter.

During the quarter we completed the installation of the new chip handling facility at the Prince George Pulp and Paper mill which became fully operational in November.

An operational bright spot in 2008 was the paper machine which broke a production record during the year.

Now turning to fiber, costs were 3% lower this quarter than in the previous quarter. Lower fiber costs were primarily the result of eliminating certain high cost whole log shipping initiatives and also for a lower residual chip prices paid to saw mills. Looking ahead into the first quarter we expect delivered chip costs to continue to decline as the price we pay for residual chips is linked to the mill nets we receive on our pulp sales which have declined. I'll also remind everyone that the lowered delivered chip price takes several months to work their way through inventory into a sale those benefits take time before they show up on the bottom line.

As for the markets in the fourth quarter, much like other global commodities, we have seen a rapid deterioration of the pulp market through the quarter--certainly more than anyone could have predicted. Demand for pulp across all regions have fallen with the North American printing and writing grade segment, which is the largest consumer of pulp, having declined the most.

As a result we sold more than our normal amount of pulp outside of North America and into the spot markets both of which lowered mill nets. Global (NBSK) northern pulp and bleach kraft inventory producer inventory are at 40 days. This is higher than what is considered a balance market of 30 days of inventory, which therefore keeps pressure on prices.

I'll hand the call over to Terry and following his financial summary, we will return with some additional comments. Terry?

Terry Hodgins

Thank you, Paul. Details and commentary on the fourth quarter results are in the yesterday's press release. I would like to highlight some specific items during the fourth quarter and their impact on the financial results. The partnership reported sales of a \$186 million for the quarter which is a decline from the \$215 million reported in the third quarter. This reduction in sales was the result of lower shipments and lower realized prices due to falling list prices and higher than normal percentage of sales in the lower priced markets. This was partially offset by the weaker Canadian dollar during the quarter.

The partnership reported EBITDA of \$9.8 million in the quarter compared to \$40.6 million in the third quarter. The main factors for the EBITDA change and their impacts were approximately \$7 million from lower sales prices and lower shipments, approximately \$11 million impact on unit manufacturing costs as production was reduced by 42,000 tonnes in the quarter. Approximately \$5 million from higher fixed costs from higher spending in maintenance and operating supplies due to the maintenance shots we took during the quarter and the \$1.9 million inventory write down of finished goods inventory to net realizable values at December 31.

The partnership reported a net loss of \$26 million for the quarter. Non operating items impacting the net loss include an \$18.1 million foreign exchange loss on the translation of US dollar denominated long term debt and a \$3.3 million charge representing a reduction in the value of natural gas and US dollar working capital foreign exchange hedging contracts.

As Paul noted the permanent chip handling facility at the Prince George mill was installed in November. During the year we have accrued a total of \$31.3 million in insurance recoveries covering property damage and business interruption insurance as a result of the fire. To date we have collected just over 87% of that amount. We are working with our insurance carrier to finalize settlement which we expect to have completed during the second quarter. We do not anticipate any material changes to the amounts accrued. Total costs of the chip screened facility were \$12.7 million any much \$9 just under \$9.5 million was funded by insurance proceeds.

With respect to capital in 2008, we spent \$25 million including \$3.25 million of our share of the chip screen facility at the PG mill.

I now will comment on liquidity. At December 31 we had \$26 million of our revolving credit facility available. Since the inception of the Fund, we have stated that we would distribute our distributable cash generated in the year and limit the use of the revolving credit facility to finance increases in working capital and we have continued to follow that policy through 2008. During the year our total inventories increased by approximately \$40 million which we funded with cash and draws in our operating facility. At December 2008, working capital levels were high due to a build-up of chip and finished goods inventories. Chip inventories remained high because of our market curtailments in December. Pulp and craft paper inventories were high as a result of the unexpected rapid deterioration of the markets during the quarter. We expect to reduce the use of the operating credit line as chip and finished goods inventories are reduced to more normal levels through the first half of 2009. We have no funding deficiencies in our registered pension plan and no long term debt repayment obligations until 2013.

For the full year we generated \$1.35 per unit in adjusted distributable cash and paid out \$1.36 per unit in distributions. The higher pay out was the result of lower than expected earnings in the fourth quarter due to greater than anticipated decline in markets in December. We will be reporting the income tax data of our 2008 distributions next week. However, at this time I can say that due to the accelerated write off for manufacturing assets which has the effect of lowering taxable income, there will be a return of capital component in the distributions for the year. Also there will be a capital gain component resulting from the insurance proceeds for the equipment destroyed in the fire at the Prince George Mill.

Paul, back to you.

Paul Richards

Thanks Terry. A few more comments before we take questions. First current market conditions, announced list prices in North American US\$700 per tonne, in Europe at US\$600 per tonne at and in Asia approximately US\$500 to US\$540 range, on a net basis. While NBSK producers collectively took about 15% of annualized production out

of either temporally or permanently in the fourth quarter, more will be required as supply continues to outstrip demand. We are starting to see announcements out coming out for further curtailments. We believe this will help reduce inventory levels and support pulp prices. We expect for the first half of 2009 markets remain difficult with prices stabilizing around current levels. Demand is expected to remain weak to in all regions. So in the near term we will continue a process we began in the fourth quarter of seeking opportunistic sales while also increasing our contract sales mix in the more stable tissue segment.

For 2009 we expect to take 45,000 tonnes of maintenance downtime. In addition to the 14,000 tonnes of market related downtime we took in January, we expect to take 13,000 tonnes in Q1, 11,000 tonnes in Q2, nothing in Q3 and 21,000 tonnes in Q4. This is of course subject to market conditions, as we manage our inventory levels throughout the year.

Also looking ahead to 2009, we have initiated a program to reduce spending by as much as \$10 million per year. We expect this to be achieved through lower chemical and energy usage and extensive cost controls on all areas of discretionary spending. In addition we expect to see lower energy prices which should help chemical, natural gas and freight costs. Our goal is to maintain our low cost position in the industry. These cost reductions are independent of fiber cost savings tied to lower saw mill residual chip prices. A further cash preservation initiative will be the reduction of 2009 capital expenditures to a level of approximately \$15 to \$20 million from the historical levels of \$30 million per year. We are comfortable with a lowered CapEx levels this year since we have been investing expensively since our spin out in 2006. Our mills are in good condition.

We have entered into an electricity purchase agreement with BC Hydro as part of their Call for Power program. This project offers modest improvements in our financial results. It is subject to approval by the BC utilities commission and pending that approval, we would defer further comments at this time.

Yesterday we announced a distribution of \$0.01 per unit to be paid for the month of February. This is lowered than the \$0.04 paid in January and a reflection of the current market conditions and continuing uncertainty over the impacts of the global financial market turmoil. In light of these conditions the board has decided to make this proved decision to lower distribution until stability in demand prices are cleared.

Also yesterday we were pleased to announce the appointment of Mr. William Stinson to our Board of Directors, whose wealth of experience on the board of Westshore Terminal Income Fund and Grant Forest Products will make him a welcome addition.

On behalf of the board I would like to thank employees for a successful 2008. Despite a challenging fourth quarter we must remember that 2008 was a very respectful year as we earned almost a \$117 million in the EBITDA and distributed a \$1.36 per unit to our unit holders.

In closing the cost reduction initiative we have launched in combination with a strong customer base, low cost operations and strong financial position will allow us to endure

these difficult economic times and be an even stronger company when the markets improve.

Operator, that concludes our prepared comments and we are ready to take questions as I hand the call back to you, ma'am.

Operator

To ask any questions from the telephone line. (Operator instructions). The first question is from Daryl Swetlishoff of Raymond James, please go ahead.

Daryl Swetlishoff

Thank you, and good morning guys. Two questions, first Paul could you give me some extra colour on the fiber cost reductions and may be some expectations of the magnitude the reductions we can expect in 2009?

Paul Richards

Okay what we are seeing is probably for Q1, reductions in the 7 to 10% range. We have already seen some of those in terms of delivered costs in Q4. We'll do some pretty good cost reductions on our while with shipping reductions and also some of reductions on the residuals so. I think it's 7 to 10% reduction in Q1 is probably where we will be. I really don't know how much lower we'll be going beyond that.

Daryl Swetlishoff

Fair enough thanks for that. On the distribution policy, the \$0.01 that you declared for February was a bit lower than I would expect especially given the favorable FX moves that we've seen. I guess the question is with respect you know you have had a fairly stable distribution policy in the past. Can we expect more variable month by month changes going forward?

Paul Richards

Good question. I think to start with is that the reduction is really a reflection that we really don't know where the markets are going. We would have expected by now to see more downtime because we believe there is to a lot of pulp being produced that at levels that are below cash costs. They must be losing a substantial amount of money. We just would have expected to see more downtime by now but it's not there. We're not really sure where prices are going to go and there may be a timeframe where it will go lower than it naturally would go and then come back to a more stable level. We also were beginning the year having taken some market downtime. In the past years we have started the year probably with a very good first quarter and we were able to use the first quarter to stabilize going forward and we don't have that ability now. We are starting out having already taken market related downtime in January. We are starting out at the other end then we will see how that it takes out during the year.

Daryl Swetlishoff

Okay thanks then I'll turn it over.

Operator

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

Paul Quinn

Okay thanks good morning. Can you give us a rough cost of what you consider the downtime to be in Q4?

Paul Richards

Yes. Paul estimated that that was order magnitude about a \$11 million impact on EBITDA and in addition to that the scheduled maintenance shuts caused us to spend higher in our maintenance and operating supplies of by order magnitude about \$5 million more. So I am not sure just which piece you were questioning but those were the two components.

Paul Quinn

Well both is quite helpful. Yeah okay in terms of one thing that looked light was paper shipments in the quarter. Is that expected to stay at that level quite a bit down from the previous quarter?

Paul Richards

We will have Joe talk about that.

Joe Nemeth

Joe Nemeth here. What you're seeing in this kraft market is pretty similar to the printing and writing market. So what you saw in Q4 those levels are both similar in Q1. I don't know if I answered your question?

Paul Quinn

I see that okay I am following that. May be in terms of--I guess you've announced or you've taken the 14,000 tonnes of market downtime in January. Is your expectation to take more in Q1 here and what your plan up for Q2?

Paul Richards

Well that's on the pulp side and we currently are not planning any more downtime. We believe we have the cost structure that can allow us to participate in these markets but what remains to be seen will we will look at it on a month to month basis.

Paul Quinn

Okay is it very fair to say that the current pulp markets are worse than you saw in Q4 or is that is that an sort of an unfair statement?

Paul Richards

I think my view would be, and Joe step in if you wish, but my view would be that actually volumes are a little bit better than they were in Q4. When we got into in November, volumes were just terrible. They were almost non existent in some regions. They did start to pick up towards the end of December. So what we are seeing is that if the volumes are better I think than they were in Q4, certainly better in the end of Q4. But prices have remained difficult.

Joe Nemeth

The only colour that I might add to that is traditionally December through January is your weak point of the year. This year is no different except obviously it's the lower levels. So as Paul says if you look at Feb-March, it's stronger than December-January.

Paul Quinn

Okay great. Thanks guys.

Operator

Thank you. Once again please press * 1 at this time if you have a question. The following question is from Sean Steuart of TD Newcrest, please go ahead.

Sean Steuart

Thanks good morning everyone. Joe a question on your geographic sales mix in the fourth quarter and how that might have shifted from the prior quarter and I guess what you are expecting into the first half of 2009?

Joe Nemeth

Yes traditionally we sell and most of the spot sales are opportunistic or Asia. So traditionally we sell what a third of our tonnage into Asia. In Q4 we are approximately 5% higher than that.

Sean Steuart

Okay and into the first quarter of 2009?

Joe Nemeth

That trend continues.

Sean Steuart

Okay. Paul or Terry I guess it's just a question on liquidity and I know you're going to focus on bringing inventories down over the first half and you know I guess that speaks to further market related closures into the second quarter but and with liquidity of \$26 million, are you comfortable with that level, is there anything else you are looking at, to may be enhance that position over the midterm?

Terry Hodgins

Sean I think obviously, everybody from a financial side, the more liquidity we have we have the better but I would say we are comfortable with that level given the reason for the run up and that's the fact that we have high chip inventories and high finished goods inventories. And I think as Paul or Joe have mentioned, yes the market was tight in December-January, we are seeing decent shipment levels now and would expect that to continue for finished goods and that will drive our inventories down without taking downtime. And we also are looking at our chip inventories, we carried high chip inventories because of the somewhat because of the uncertainty of the, a saw mill curtailments that may take place during the as we go through the year. And we would anticipate some of that will happen in the first half of the year and as a result, we are looking at some not insignificant reduction in chip inventories between now and say now and June.

Sean Steuart

Is it possible to give us a split between finished pulp inventories and the chip supply and whether it's a dollar figure split or anything else you can give us?

Terry Hodgins

For the reductions?

Sean Steuart

Actually where at things stood at the end of the fourth quarter?

Terry Hodgins

Sure just it's in our press release in the notes.

Sean Steuart

I can dig it up Terry.

Terry Hodgins

Okay it's in the note to our statements that shows the major components of the inventory.

Sean Steuart

Okay thanks a lot.

Terry Hodgins

Okay.

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

Well thank you very much operator. Again I would like to thank everybody for taking the time to join us on the call and if you have any further follow up questions, please don't hesitate to call in. Thank you very much.

Operator

Thank you the conference has now ended. Please disconnect your lines at this time.
