

**Canfor Pulp Income Fund  
Q1-2009 Conference Call  
8:00am (Pacific) April 29, 2009**

**COMPANY PARTICIPANTS:**

**Paul Richards, President & CEO**

**Terry Hodgins, CFO & Secretary**

**Operator**

Welcome to the Canfor Pulp Income Fund first quarter 2009 results conference call. Management's comments today unless otherwise noted relates to the operating entity, Canfor Pulp Limited Partnership of which Canfor Pulp Income Fund owns 49.8%. Please be advised that this call is being recorded and webcast live on the company's website canforpulp.com. A recording of the call and the transcript will be available on the company's website as well. The company would also like to point out that this call will include forward looking statements so please refer to the Monday, April 27th, 2009 press release for the associated risks of such statements. I would now like to turn the call over to Mr. Paul Richards, President and CEO of the Canfor Pulp Limited Partnership. Please go ahead, Mr. Richards.

**Paul Richards:**

Thank you operator. Good morning ladies and gentlemen and thank you for joining us today. On the call with me are our Terry Hodgins, our CFO, Joe Nemeth, Vice President of Sales and Marketing, and Brett Robinson, our Vice President of Operations. I'll offer some comments on the first quarter after which Terry will provide his financial commentary and then I will return with some further comments.

On Monday, we reported the first quarter sale \$186 million, net loss of \$22 million, EBITDA of positive \$2.2 million and adjusted distributable cash of negative \$0.06 per unit. Needless to say, it was a difficult quarter for the company, but is a reflection of the overall state of the economy.

Demand for pulp in North America and Europe continued its fall from the fourth quarter of 2008 to the entire first quarter of 2009. The North American printing and writing grades segment which is the largest consumer of pulp declined almost 18% year over year. As a result of poor demand, list NBSK pulp prices delivered to the US fell 12% during the quarter. Countering the trend in North America and Europe, there has been a strong demand from China.

Demand in price has in sack Kraft Paper market has weakened as well particularly in the prime bleached rates. Price declined in the paper market has not been a severe as the pulp markets however.

Now to our operations, during the first quarter, we took approximately 21,000 tonnes of market pulp production out, which consists of 7,000 tonnes of scheduled of maintenance at the Northwood Mill and market curtailment of 14,000 tonnes of market pulp and 4,700 tones of Kraft Paper. The market related curtailment was initiated in late December 2008 and continued into early January 2009. The market curtailments, combined with aggressive selling into stock markets and into Asia, have reduced our inventory level which was the priority for us in the quarter.

Now turning to fibre, our costs were 9% lower this quarter than in the previous quarter. The lower fibre costs were primarily a result in eliminating certain high costs whole log chipping initiative, and a result of lower residual chip prices due to falling pulp mill nets and lower freight costs.

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

**Terry Hodgins:**

Thank you, Paul. Details and commentary on the first quarter results are in Monday's press release, so I won't take you through all the details, but I would like highlight some specific items and their impact on the financial results.

The Partnership reported EBITDA of \$2.2 million in the quarter compared to \$9.8 million in the previous quarter. The main elements comprising the change in EBITDA are approximately \$20 million negative change from lower realized sales prices. This was offset by approximately \$6 million from the lower fibre costs, approximately \$3 million from higher quarter over quarter production volume and approximately \$3 million from lower production costs. While the pulp segment showed a quarter over quarter declined in EBITDA, the paper segment increased EBITDA to lower slush transfer prices and lower fixed costs despite slightly lower sales price realizations.

The Partnership reported a net loss of \$21.6 million for the quarter. This loss includes non-operating items of \$3.9 million in foreign exchange loss on translation of our US dollar denominated a long-term debt and a \$5.7 million charge for realized and non-realized costs on natural gas and currency hedging contracts.

As I mentioned last quarter, improving our liquidity was a priority for us. We've done this through reducing the distribution, managing our capital expenditures which were \$2.4 million in a quarter and through disciplined management of working capital. Despite the poor market conditions, we have reduced pulp inventory levels by almost \$13 million and reduced chip inventory levels by over \$4 million. As a result, we reduced our utilization of the operating line by \$7.6 million end of quarter. We expect further improvements in liquidity through the remainder of the year with combined focused on working capital, combined with the lower costs structure through the mill operating plan and benefits of the costs reduction program. Our

capital expenditure program for 2009 is still expected to be approximately \$15 million which is primarily loaded to the last half of the year.

At the end of the quarter, we were in compliance with our financial covenants and based on our current financial forecast reflecting the reduced downtime and lower costs, we expect to remain in compliance throughout the year.

We have commenced discussions on renewing our operating line which matures on November 30th of this year. I would say at this time, we expect to renew the facility at similar levels at prevailing market rates and costs at the time of renewal.

And lastly, in the first quarter, we paid \$0.06 per unit in distributions while generating a negative \$0.06 per unit in adjusted distributable cash. I'll remind everyone that we paid the distribution based on our conservation estimates on the full year's cash flow from operations, net of debt servicing costs which are expected to be about \$8 million and capital expenditures of \$15 million. Despite challenging pulp markets, we are forecasting better results for the rest of 2009 which we expect will enable us to maintain or potentially increase the distribution in the second half of the year.

Paul, back to you.

**Paul Richards:**

Thanks Terry. Supply curtailments by NBSK producers, both temporarily or permanently, have helped reduce global inventory levels. Producer inventory levels today are at 40 days, which is down 3 days from the peak in January. We believe producer curtailments will need to continue in order to bring balance into the market and while produce curtailments will help to stabilize prices, we probably won't see sustainable price increases until general economic conditions around the world improve. In the meantime, we'll continue to grow our sales in the more stable tissue segment and with our low cost structure, opportunistically seek non-contract or spot sales. Our location in BC is well-situated to serve the current demand in the Asian market. A price increase to Asia was achieved in April and we've now announced another small price increase next month as well. Our view is first quarter pricing reflects the bottom of the market as we are starting to see some signs of improvement in Asia and the floor price being established in Europe. However, due to an unusual alternative fuel tax credit opportunity that the US pulp producers have taken advantage of, it is allowing them to have substantial cost savings. This is maintained downward pressure on North American prices.

Looking ahead to production levels for the remainder of 2009. In the second quarter, the Intercon and Prince George Mill are planning maintenance outages which will reduce pulp production by about 7,000 tonnes of pulp and 3,000 tonnes of paper. No maintenance shut downs are planned for the third quarter. For the fourth quarter, Northwood is planning maintenance outage which is expected to reduce production by 21,000 tonnes. At this point, no further market curtailments are planned.

As per fibre costs, we expect pricing of chips to remain flat for the second quarter. I mentioned last quarter that we embarked on a \$10 million costs reduction program. Cost saving is focused on what we can control and is the above the already mentioned fibre savings and the lower fuel costs. We're making good progress on the cost reduction program and expect to exceed our goal with the savings to be more visible in our results once maintenance and market curtailments are well behind us.

Yesterday, we held our third annual general meeting with all resolutions presented before its shareholder being passed.

In closing, despite of low pulp prices, we expect to see improved financial results for the remainder of 2009 driven by reduced downtime at our mills and lower operating cost.

Operator, that concludes our prepared comments, we're ready to take questions.

**Operator:**

Thank you. [Operator instructions]. Our first question is from **Howard Ma of Raymond James**. Please go ahead.

**Howard Ma:**

Terry, I have a question about your covenants, in particular, you find that the EBITDA covenant of 3.25, it seems to me by the 3rd quarter of this year and you're pretty close to that upper limit. Can you address how you think you'll be on side while addressing both the funded debt portion and the EBITDA portion of the ratio?

**Terry Hodgins:**

I will to some degree. Certainly, you're correct and that as we look through the year, we see being as close to that covenant in the 3rd quarter as anytime during the year. As we indicated with our operating scenario and lower cost, we expect to see some significant improvement in EBITDA over the next 2 quarters. That combined with our control over capital expenditures, our reduced distribution level, will enable us to accumulate some cash and certainly pay down our operating line which enters into the numerator of that calculation. So, combined with both two things we -- that's really how we expect to be on side and that's what our forecast shows at this point.

**Howard Ma:**

Can you tell me how much do you think you'll pay down your debt levels?

**Terry Hodgins:**

I can't tell you exactly, I don't know if those numbers in front of me now, but we will -- I expect that we will be, by the time we get to the 3rd quarter, we will not be drawing on our bank line. We will be accumulating cash.

**Howard Ma:**

I see, alright. Thank you.

**Operator:**

Thank you. Our next question is from **Paul Quinn of RBC Capital Markets**. Please go ahead.

**Paul Quinn:**

Okay, thanks and good morning guys. Just a couple of questions. One, is just on the cost savings program, Paul you mentioned that you expect to be ahead the \$10 million plan by the end of the year, can you give a sort of a Q1 update or what do you expect -- should it come in evenly throughout the year or --

**Paul Richards:**

We will probably see the numbers grow as we go through it because these things are kicking in at various levels. We've already seen some of the savings in terms of getting rid of some of those high [Indiscernible] [0:13:23] cost. We would expect to start seeing some substantial savings in natural gas as we move away from the winter, and this is not just lower price, its in the lower usage. We're doing some things to really take some significant gas out to improvements there. We also have a large number of smaller items that are going forward. We've already seen a lot of that in 1st quarter, it's just that with the market outage and the outage of Northwood, it's hard to see those numbers come through. You will see -- we'll see a big part of that even in Q2 and a larger portion in Q3.

**Paul Quinn:**

Okay and just on the North American pulp situation, you mentioned that the alternative fuel tax credits in the states are putting a damper on prices and I guess an overhang, I haven't seen any mills start up for that. What's your expectation in terms of that tax credit? Do you think it will last to the end of the year? And what is the effect in the market place?

**Paul Richards:**

Well, we're target them all, I mean I'm reading the same reports probably that you are coming out in the United States and we know that there are some Senators who think it shouldn't be going on and yet there are people who would like to see it maintained because it is allowing jobs to be maintained. It is difficult to see -- it is having an impact for sure for us because even though -- I don't think mills that have started up that shut down, but I think we're seeing mills that would normally -- maybe running at 60% or 80% are running more full out, so I think we are seeing an impact and it is particularly in the United States -- indirectly in the United States we're seeing it. I really don't know how long that would stay in effect. If it does stay in effect for a lengthy of period time, I think that the Canadian industry, in order to have any chance of having a Canadian Industry particularly in the East, I think there is going to have to be some offset problem with the Canadian Government.

**Paul Quinn:**

So in terms of that Canadian, I guess it would be a Federal Government offset, a discussion has been underway on that and what's the receptivity in Ottawa to that?

**Paul Richards:**

There has been a lot of discussion going on in a lot of levels, provincial, federal, but at this point, I think the focus has been that maybe the Americans would just cancel their program and really the hope that would be the right thing to do rather than start to spend money within the Canadian side, but we'll have to see how that play goes. We really haven't made any concrete steps.

**Paul Quinn:**

Is there some kind of time line that you guys are looking at in terms of, you know if they don't cancel it by a certain time, we are going to match it and we are going to do a full court press?

**Paul Richards:**

Well, I think everybody has different time lines. We think that there are some companies that say, if we don't change in 3 months ago we're in trouble, but I think that it is very difficult to put a time on these things.

**Paul Quinn:**

Okay, best of luck in Q2.

**Paul Richards:**

Thanks.

**Operator:**

Thank you. Our next question is from **David Elstone of Equity Research Associates**. Please go ahead.

**David Elstone:**

Hello. Just following up on Paul's question. Do you see any limitations on the Canadian side of putting in a subsidy on the -- for Canadian producers?

**Paul Richards:**

Well, there has been some concern that if you put a subsidy in --by the way, back up in the United States, its not a subsidy specifically for pulp and paper. As it was designed for alternative fuels that were designed for any sector. It was expected, I think, initially initially to cost the American Government about \$16 million. Once the loophole for the pulp mills came in, they are now looking at \$6 billion number. So the intention and the impact are quite different. I think that if there is a problem in terms of doing something, it would be -- if we tried to put a program that's specifically apply to pulp and paper because there are some companies who are integrated with lumber, and the and the coalition has already said if you do something for a specific group

within the forestry industry, that would potentially have a probably a problem for the lumber softwood agreement. So there is a concern around that.

**David Elstone:**

Okay, I'll just switch courses here, this is in regards to your sales distribution -- I have to guess with this increasing demand from China, how much of that has been a benefit to Canfor Pulp in terms of your sales?

**Paul Richards:**

We have been able to put a significant portion of our spot sales into the China.

**David Elstone:**

Okay, that's great. Thank you.

**Operator:**

Thank you. Once again. Please press \* 1 if you have a question. Our next question is from **Chen Lin, a private investor**. Please go ahead.

**Chen Lin:**

Yes, hi. I have a question concerning your dividend. Do you plan to continue paying the dividend at the current rates?

**Terry Hodgins:**

As I indicated, our projections would suggest that while we over distributed in the 1st quarter the fact that we had negative distributable cash, our projections through the year suggest that we will be able to maintain that distribution and possibly increase it in the later part of the year.

**Chen Lin:**

All right, thank you. How do you see the bankruptcy of Abitibi-Bowater have any impact for the business?

**Paul Richards:**

Well, it's difficult to say how any bankruptcy impacts us. I could be -- it comes from a wide range of things. For example, we've seen other bankruptcies in with direct competitors that for some, you know, are able to start back up and almost have no impact, so we'll have to wait and see what it does to -- they do produce some NBSK pulp and there are some issues around fibre supply, but it remains to be seen if there would be any impact at all.

**Chen Lin:**

Thank you.

**Operator:**

Thank you. We will now take question from the media. [Operator instructions]. There are no further questions registered at this time. I would like to return the meeting back over to Mr. Richards.

**Paul Richards:**

Thank you operator and again I would like to thank everybody for participating in the call and if you have any follow-up questions, please don't hesitate to call. Thank you very much.

**Operator:**

Thank you. The conference has now ended. Please disconnect you lines at this time and we thank you for participation.