

**Canfor Pulp Income Fund
Q2-2009 Conference Call
8:00am (Pacific) July 27, 2009**

Company Participants:

- Paul Richards, President & CEO
- Terry Hodgins, CFO & Secretary
- Joe Nemeth, Vice President, Sales & Marketing

Operator:

Welcome to the Canfor Pulp Income Fund second 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 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 Friday July 24th 2009, press release for the associated risks of such statements. I would now 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. 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 our Vice President of sales and marketing and Brett Robinson, our Vice President of Operations. I'll offer some comments on the second quarter after which Terry will provide his financial commentary and then I will return with some further comments.

On Friday, we reported the second quarter sales of \$205 million, a net income of \$1.5 million, EBITDA of over \$7 million and adjusted distributable cash of \$0.02 per unit.

Pulp markets have shown signs of improvement during the second quarter while demand for the NBSK pulp continues to be below 2008 level. We have seen slight improvements this quarter over Q1. As for the supply side, temporary and permanent NBSK curtailments have caused [softwood pulp inventory decrease from 40 days at the start of the quarter to 26 days at the end of June. This large decrease in inventories over a short period of time has tightened the market causing list prices

to increase from whole of US\$635 per tonne in April to US\$660 in June. Unfortunately, the price increase is offset by the strength of the Canadian dollar in relation to the US dollar. Canadian dollar averaged almost \$0.86 from the quarter which is 7% stronger than in the first quarter.

Now, turning to operations during the second quarter schedule maintenance shuts reduced production by approximately 7,000 tonnes of market pulp and 3,000 tonnes of paper at the Intercon and Prince George Pulp and Paper Mill. Otherwise, the mills ran better than they did in the first quarter primarily functional, warmer weather and less downtime take.

As previously mentioned, our focus during the difficult market conditions during the first half of 2009 have been to free up cash by reducing inventory levels and by lower spending to our cost reduction program. It's working, as we've been able to generate almost \$45 million of cash from operations in the last six months. 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 of the second quarter results are in Friday's press release, so I won't take you through all the details, but would like – I like some specific items and their impacts on the financial results.

For the second quarter, the Partnership reported EBITDA of \$7.2 million compared \$2.2 million in the previous quarter. Included in the second the quarter EBITDA is a \$3.5 million settlement of the insurance claim relating to the Prince George Pulp and Paper fire in 2008. Other elements comprising the change in EBITDA are approximately \$4.5 million from lower fiber cost, \$6 million from lower energy and chemical cost, \$9 million from higher quarter over quarter production volume. These positive factors were offset by approximately \$18 million of realized lower sales prices from a combination of lower list prices and a stronger Canadian dollar. While the pulp segment showed a \$5.6 million quarter over quarter increase in EBITDA, the paper segments EBITDA was essentially flat. Lower realized paper prices were positively impacted by higher production volumes and lower pulp input and other production cost.

As you've heard, Paul already mentioned improving our liquidity during the adverse market conditions has been, and will continue to be, a focus for us. We entered the year with high inventories and a net drawn position on our operating line, net of cash, of approximately \$25 million.

We ended the second quarter with a positive net cash position of over \$3 million. The improvement in the liquidity has come from reduced spending from our cost reduction program, reduced distributions, management of our capital expenditures, which were limited to 2.2 million in the quarter, and discipline management of working capital. Despite difficult market conditions during the second quarter, we reduced and finished pulp inventories by \$17 million. This is down to a more normal level and within our target range for our business. We've also seen a seasonal reduction in chip inventories by \$5 million in Q2 in addition to the \$4 million reduction in Q1.

Our capital expenditure program for 2009 remains at approximately \$15 millions with spending primarily shifted to the last half of the year.

At the end of the quarter, we were in compliance with our financial covenants. Our current financial forecasts reflect full operation in Q3 with no maintenance downtime, higher prices, a lower cost structure, and positive cash generation. Although the rising Canadian dollar is making the situation more difficult with our debt denominated in US dollars and the net debt definition allowing the offset of cash in our calculation, present forecast show we will remain in compliance through the year.

Discussions are continuing with our operating line lenders to renew the credit facility that expires in November. As we are in discussions, I will not comment further other than to say I expect to renew the facility at a similar level at prevailing market rates and costs. Paul, back to you.

Paul Richards:

Thanks Terry. We've not scheduled any maintenance downtime in the third quarter and currently forecasting to take our Northwood Mill down early in the fourth quarter for its maintenance shut. This shut is expected to reduce pulp production by 21 thousand tonnes.

Now turning to what we see in the markets ...with the supply of pulp tight, pulp producers have raised prices in July. Now, list prices in the North America for July are US\$700 per tonne, US\$670 per tonne in Europe, and on a net basis US\$580 or US\$590 per tonne in Asia. These are all US\$30 to \$40 higher and they were in June. Further price increases have now been announced for August by a number of producers. The increase in prices is primarily result of supply curtailments and is generally not the result of increasing demand. So the remainder of the 2009, we foresee a slight improvement in demand from papermakers in North America and Europe. As for China, we now believe the strong buying from that market was more than a restocking exercise. Its economic

conditions are relatively better than elsewhere in the world and local Chinese production was significantly curtailed in the first half of 2009. Having said that, we do believe demand in China will pull back slightly going forward. Despite the higher pulp prices, we believe the stronger Canadian dollar and the high cost structure of some mills remains and will continue to constrain production going forward. With world pulp producer inventories at 26 days, markets have tightened and at such we are forecasting modest price increases for the remainder of 2009.

On June 17th, the Canadian federal government announced the billion dollar Pulp and Paper Green Transformation Program. The program proposes to provide the \$0.16 per litre credit to qualifying Canadian pulp mills for black liquor consumed from January 1st, 2009 onwards, until the billion dollars have been allocated. Based on our estimates of black liquor production, we think all the credits have been or will shortly be allocated. We therefore think that this will not result in any noticeable increase in production in the industry. All three of our mills consumed black liquor in the pulp production process and qualify for this credit. We expect the allocation of credits to be announced in October followed shortly thereby by approval of projects for qualifying for funding. We expect to see funding from the program later this year or early 2010 with all funding to be paid off by the end of the first quarter 2012. We're currently generating a list of qualified capital projects and we'll be in the position to comment further on the benefits of this program, once program details have been finalized and announced, and our program credits have been determined. Having said that, we do expect the program will fund most of our capital projects for the next two and a half years on projects which will generate positive returns and strengthen our competitive position for the future.

In closing, we remain committed to our cost reduction and working capital management programs although we expect market conditions to show modest improvements but still remain challenging. We anticipate our earnings and cash position will continue to improve through the second half of the year. Operator, that concludes that our prepared comments. We're ready to take questions.

Operator:

Thank you. [Operator instructions]. The first question is from Paul Quinn from RBC Capital Markets. Please go ahead.

Paul Quinn:

Yeah, thanks and good morning guys. Couple of questions, one on – Paul, you mentioned that you expect Chinese shipments or purchases in the back of the year to I guess moderate from the very strong occasion now beginning. What do you expect at the end of the year that we'll see shipment volumes in China, I mean, year to date, you're up the 68% but at the end of the year, are they somewhere in the 30 to 40 range or how big will it have a fall out in the back out for you expected?

Paul Richards:

Well, I don't know what the average for the year and we do anticipate a modest reduction in the Chinese demand. Having said that, we are surprised that the strength of even the hard wood market and so the demand there is continuous to be ahead of where we thought they should be. I can't really tell where they going to be over the next 6 months but what I don't expect to see is a major decline in purchasing.

Paul Quinn:

Okay and just staying with China, just on domestic capacity, have you seen any mills that are previously been just start up in the last couple of months?

Paul Richards:

I haven't seen any at myself. Maybe I will ask Joe Nemeth if he knows of any that have started up, Joe?

Joe Nemeth:

Can you hear me okay? I just came from China about a month ago. And there are 3 mills in particular that are restarting. And the capacity might have combined [indiscernible] so it has seen some restart.

Paul Quinn:

And just – I have last question just from the green transformation program. I guess when you guys just come out from Canfor, there was the Northwood recovery boiler project that was related at some point in the future. Is that sort of the bigger the plan projects you've got for using that green transformation program money?

Paul Richards:

Yeah, when we spun out [of Canfor] we talked about that. Frankly, that's the first project on my list and we would expect to move forward on that one as quickly as we can.

Paul Quinn:

Okay, thanks guys, good luck.

Paul Richards:

Thank you.

Operator:

Thank you. Once again, if you have a question, please press *1 on your telephone keypad. The next question is from Graham Meagher from TD Newcrest, please go ahead.

Graham Meagher:

Good morning guys, just following on the green transformation program there. So the Northwood is one of the projects. Can you talk about sort of the scale or scope of other projects you might have in line there?

Paul Richards:

Well we're little reluctant to talk about our number of projects because we still don't know what are the final project details, we don't know the dollar value that are going to be available. We are generating a number of projects that will – we think might fit into the category. But Northwood will be covered by our project in just – it just so fits what the government is looking for in terms of energy reduction, reduction in order, reduction in particulates, they just covered all of the areas they're trying to improve on. We – that's so – so energy is still a major driver here. We potentially would be looking up great turbo generators with an opportunity. We will also be looking for projects that reduce our use of fossil fuels in particular natural gas. Those are the areas that we would be focusing on.

Graham Meagher:

Okay, thanks. And then just on the pulp shipments this quarter, 286,000 tonnes probably a record there. And he comment to that inventory levels are now normal. But can you just talk about the – sort of the relative proportion of sales to China in this quarter compared to the prior quarter,

compared to the prior year and whether the North American tissue market was still a focus in Q2 like it was in Q1?

Paul Richards:

Again Joe, maybe you could answer that.

Joe Nemeth:

There are two questions there. The first was China's percentage. China represented about a 3rd of our shipment in Q2 which is very similar to Q1, and that is an increase from 2008 with regards to a tissue, North American tissue has been a long-term focus was in the last couple – whether it was and will be going forward.

Graham Meagher:

Okay, that's all I had. Thank you.

Operator:

Thank you. The next question is from Benoit Laprade from Scotia Capital. Please go ahead.

Benoit Laprade:

Thank you. Good morning. Terry, just a question you did mention in your remarks that you're pretty comfortable with your covenants, just wondering if you have been though proactive in maybe having this covenants relaxed early just in case the dollar would not cooperate.

Terry Hodgins:

I mentioned we're in discussion with our operating lenders. I haven't approached the noteholders and in the long term debt and I don't intend to with regards to getting a relaxation of the covenants unless something really dramatic were to change, and I don't see that. Certainly, we have been in contact for the last couple of quarter with our noteholders and keep them informed as to where we are. But at this point, I haven't tempted to get any relief and – for the reason that I don't believe at this time we will need that relief.

Benoit Laprade:

Thank you.

Operator.

Thank you. The next question is from Daryl Swetlishoff from Raymond James. Please go ahead.

Daryl Swetlishoff:

Well, thank you and good morning. Paul, just asking if you can speculate a little bit about the US black liquor program. We've been hearing about the durability of that program going forward.

Paul Richards:

Well, we see there's been 3 separate lobby groups is seems on one trying to shut it down early which would be early October, one trying to at least keep it going to the end of the year and the third one trying to extend it in the next year. Beyond my ability to foresee where that's going to go.

Daryl Swetlishoff:

Okay. The rest of my questions have been answered. Thanks.

Paul Richards:

Okay.

Operator:

Thank you. There are no further questions registered at this time. I would now return the meeting back over to Mr. Richards.

Paul Richards:

Okay. Well, thank you. I appreciate everybody of being on the call and taking your time. And as we say, we thank the market have been improving for us and so we're looking for a better 3rd quarter. And if you have any further question, please don't hesitate to give us a call. Thank you very much.

Operator:

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