

**Canfor Pulp Income Fund
Q4-2009 Conference Call
8:00am (Pacific) February 8, 2010**

Company Participants:

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

Operator:

Welcome to the Canfor Pulp Income Fund Fourth Quarter 2009 Results Conference Call. Management's comments today unless otherwise noted relate 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 a transcript will be available on the company's website as well. The company would also like to point out that this call would include forward-looking statements. So, please refer to the Friday February 5th, 2010 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 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 fourth quarter after which Terry will provide his financial commentary and then I will return with some further comments. On Friday, we reported the fourth quarter. For the fourth quarter sales of \$220 million, net income of 15.2 million, EBITDA of over \$27 million and adjusted distributable cash of \$0.31 per unit. On an annual basis, we reported for 2009, sales of \$814 million, net income of 13.4 million, EBITDA of over \$61 million and adjusted distributable cash of \$0.43 per unit.

The steady improvement in consumption and continued reduction of supply has resulted in continued tight market conditions as a global softwood pulp inventories to 23 days of supply in December, which is an increase of one day from the end of September 2009. With the supply

constraints that happened in the first half of 2009, days supply of global softwood pulp inventories declined by 20 days from the peak of 43 days in January of 2009, which is below what would be considered the balanced market and continues to favor the producer. These market conditions have enabled producers to implement price increases totally \$60 in North America through the fourth quarter. For the year, North American list prices have increased from \$635 in April to \$830 US per ton by the end of the year. The weakening US dollar has some of the benefit of improved prices for Canadian and European producers. During the quarter, the US dollar declined in value by 4% in relation to the Canadian dollar.

Through operations, during the quarter we completed our annual schedule maintenance outage at the Northwood facility, which resulted in approximately 30,000 tons of reduced production. Market pulp reduction for the quarter at 252,000 tons was below the previous quarter, which had no maintenance downtime. Manufacturing costs increased in the fourth quarter as expected due to the impact of the Northwood shutdown and higher seasonal energy consumption.

During the fourth quarter, we reduced our higher cost around wood chip deliveries, which represented 29% of total volume consumed as compared to 40% in the previous quarter. We ended 2009 with approximately 32 days of fibre supply. During 2010, we planned to reduce this level to the 20 to 25 day range primarily by further reducing our round wood chipping volume, which will represent approximately 20% of our total volume in 2010. For the full year unit manufacturing cost decreased 10% year-over-year due in part to higher production volumes and cost reduction initiatives. During 2009, we achieved in excess of \$32 million in cost reductions majority of which will carry forward.

On October 9th, the Canadian Federal Government announced the allocation of credits under the billion-dollar Pulp and Paper Green Transformation Program. The partnership has been allocated \$122.2 million to be spent on qualifying energy and environmental capital projects by March 31, 2012. We've identified and are actively working on feasibility in design to have proposals for a number of projects ready for submission for program approval over the next few months. We would expect that funding will begin to flow from a program on a cost reimbursement basis sometime before the end of the first half of 2010. In addition to environmental improvements, we expect economic benefits from these projects to reflect in operating and financial results beginning in 2011. I'll now hand over the call to Terry and following his financial summary, we'll return with some additional comments. Terry?

Terry Hodgins:

Thank you, Paul. Details and commentary on the fourth quarter results are in Friday's press release. I would like to highlight some specific items and their impact on the financial results. For the fourth quarter, the partnership reported EBITDA of \$27.3 million compared to \$25.1 million in the previous quarter. Included in the fourth quarter EBITDA is 1.8 million of energy sales under our amended EPA with BC hydro. Other elements comprising the change in quarter-over-quarter EBITDA are approximately 16.7 million from increased pulp price, net of currency exchange impacts. These improvements were offset by approximately \$10 million from the impact of the Northwood shut in October and approximately 6 million in higher costs including 3 million from higher seasonal energy consumption and slightly higher chemical and other costs. While the pulp segment showed a 6.5 million quarter-over-quarter increase in EBITDA, the paper segment's EBITDA decreased by 3.1 million. Increased paper product sales and production volumes were offset by higher input pulp prices as we transfer to the paper segment at market and a 1% decline in realized paper product selling prices in Canadian dollar terms.

We ended the quarter with \$13.5 million in cash and no cash draws on the operating line. The decrease in cash from the third quarter relates to the timing of payments for wood chips and other items. As expected when we reported to you in our third quarter conference call, we have now completed all of the legal documentation to fully implement the refinancing commenced in September. The new unsecured \$40 million-bank credit facility extends to November 2011. At December 31, utilization consisted of \$500,000 for a letter of credit issued for general business purposes. In addition to the \$40 million facility, we have a separate facility extending to November 2011 to cover the \$16 million letter of credit issued to BC hydro under the energy purchase agreement. We remained in compliance with all debt covenants on both a long-term note agreement and the bank facility throughout the year. With much improved EBITDA generation, we do not expect any covenant issues in 2010 or for the foreseeable future.

Regarding our capital expenditure program, we expect to spend a total of \$36 million on capital expenditures in 2010 of which \$16 million will be on projects that qualify for Canadian Federal Government funding under the green transformation program with a balance of \$20 million on projects funded from operating cash flow.

We are progressing with our review of arrangements to convert to a corporation on January 1, 2011 and intend to seek unit holder approval of a plan of arrangement at our upcoming AGM on April 27. The conversion is planned to be effective on January 1, 2011 when the income trust taxation rules change. On the income tax front, we're finalizing the calculations regarding the taxation of 2009 distributions and expect the distributions to be substantially income for tax purposes with perhaps a small percentage to be reported as return of capital.

As reported in the press release, we've increased our monthly distribution to \$0.12 per unit commencing for the month of February to be payable mid March. This increase is based on improved financial results in the 3rd and 4th quarters of 2009 and expected continuing strong pulp markets at least through the first half of 2010 and also incorporates the level of capital spending planned for 2010. Paul, back to you.

Paul Richards:

Thanks Terry. As we've previously reported we scheduled maintenance downtime at the Northwood mill in the fourth quarter. In 2010, we've scheduled maintenance outages of the Prince George and intercom facilities in Q2 with expected a reduced production of approximately 10 to 12,000 tons and the schedule maintenance outage at Northwood in Q3 totaling approximately 10,000 tons. No maintenance outages are scheduled for the first or fourth quarters of 2010. Turning now to the markets, pulp prices have increased in January by 20 to \$30 depending on region and we've announced a price increase of \$30 in February for all markets. Announced list prices in North America are now \$880 US per ton, in Europe \$860 per ton and on the net basis \$760 per ton in Asia. Again, these price increases are the result of continued tight markets.

We expect market to remain strong through the first half of the year due to strong seasonal demand. Approximately 10% of global supply is still [idle] although some mill restarts will help to absorb the current supply shortfall. Inventory levels held by producers and customers are low and the supply demand balances still in favor of producers. World softwood pulp producer inventories as I said earlier are 23 days with a balanced market considered to be in the 27 to 30 days. In closing, we'll continue to focus on maintaining our low cost position with a significant amount of internal resources in 2010 being dedicated to approval in some incremental of Green Transformation projects. We expect market conditions to remain favorable. Operator that concludes our prepared comments, we're ready to take questions.

Operator:

Certainly, we will now take questions from the telephone lines. We'll first take questions from the financial analysts followed by the media. If you have a question, please press *1 on your telephone keypad. If you are using a speakerphone, please lift the handset and then press *1. If at anytime you wish to cancel the question you may press the # sign. Please press *1 at this time, if you have a question. The first question is from Daryl Swetlishoff from Raymond James. Please go ahead.

Daryl Swetlishoff:

Thanks, good morning guys. Question Paul, this when you look at your Green Transformation Program you look at that the whole total of \$122 million, what sort of a pretax average return would you expect over that whole volume of the next couple of years?

Paul Richards:

Well, we don't really expect to see too much in the short term. The majority of the spending, the largest project will be on recovery boiler Northwood. We expect that those funds to be spent in 2011. We're still working on looking at the total scope of the project and so we'll see those returns coming in really, realistically 2012. I would hope to see returns that are at least in the double-digit numbers.

Daryl Swetlishoff:

And pretax return in double digits in the fullness of time?

Paul Richards:

Yes.

Daryl Swetlishoff:

Okay. One thing that I always wonder about is what we're seeing in China with respect to demand and whether these pulp shipments are being inventoried or consumed today. What's Canfor Pulp sense of that, Paul, is the demand from China sustainable at these levels?

Paul Richards:

There has been already a slowdown in demand from the beginning of 2009 through to the end of 2009, but in the last 3 or 4 months we believe that the demand we would consider it to be normal levels. So they've come off quite a bit but they are still strong and what we think are sustainable. We ourselves are not seeing any slowdown in our personal order file, in fact we're having a difficult time maintaining requests from China today.

Daryl Swetlishoff:

Last question, just on the fibre cost, if I understood in the release in the fourth quarter you've gone from 40% to 29% whole log chipping and you expect to be about 20% in 2010, can you give us an order of magnitude what you expect that will do on a dollars per ton basis or a guidance in 2010 where you expect ship cost might be in 2010?

Paul Richards:

Good question. What's happening here is as our mill net returns are going up, our fibre cost for residual chips has been going up, so that's been offset by both a reduction in whole log chips and a cost of the whole log chips. We've actually seen significant cost reductions in the whole log chip portion and so now we're also going to see a reduction in the volume. So comparing Q3 to Q4 for example, we're basically flat in spite of rising mill net returns and so we're likely to see flat cost going forward in spite of raising the net returns.

Daryl Swetlishoff:

And any dollars per cubic meter kind of guidance for 2010?

Paul Richards:

Well, normally, we don't talk in dollars per cubic meter.

Daryl Swetlishoff:

Sorry, per ton.

Paul Richards:

But now I guess the best thing to do is we don't normally talk about in dollars per ton in terms of public information but generally we'll probably remain pretty flat.

Daryl Swetlishoff:

Okay, that's good. Thanks, I'll turn it over.

Operator:

Thank you, the next question is from Stephen Atkinson from BMO Capital Markets, please go ahead.

Stephen Atkinson:

Hi, first question, regarding the project this being the big one are you think this idea in terms of megawatt hours where you're now and what you're going to once the project is complete?

Paul Richards:

The project we're talking about isn't specifically designed to generate incremental energy. We have the ability to do that. But we still have to workout details on whether we want to produce incremental energy depending on what price we can get for. What the project is designed to do is to low odor the boiler, so it's in this significant environmental improvement but also it generates more energy, more steam with less input, its just far more efficient. So what we end up doing is really produce more steam and that would require us to burn less hog fuel or natural gas in the associated power boiler. So basically what the project does is get as far more energy efficient without necessarily generating more power, but it does free up power boiler capacity to generate more power if we're able to negotiate a favorable power prices with BC hydro, which we're in the process of looking at doing.

Stephen Atkinson:

Okay, so that's something that you could benefit from as well?

Paul Richards:

That would be incremental that's great.

Stephen Atkinson:

Okay and so thereby push the return higher?

Paul Richards:

It could, yeah.

Stephen Atkinson:

Okay. In terms of the major maintenance at Northwood that you just did, is there any savings relating to what you've done?

Paul Richards:

No, there aren't any savings in an operating basis, those are really incremental maintenance work has been done around that boiler tubes and those are real maintenance, however, we did abnormally more work so at normal shut in 2010 we would expect to do a little bit less, although I would say that in 2011 in associated with the recovery boiler upgrade we will be doing extra work then.

Stephen Atkinson:

So that in terms of the operations are you on a 12 month or are you able to switch it to 18 month or what you want to?

Paul Richards:

When we talk about 12 and 18 months, regardless, we have to look at doing boiler maintenance once a year, we have to actually go in and de-pressurize and inspect the boilers once a year and the real questions become we do major work around with the 12 months or what we tend to do is do one major and then do a minor one. So when we talk about 18 months, we still have to look at the boilers, it's just that we don't do major maintenance around there and then we take the major which is an extended downtime every 18 months. So, right now we're still working on the minor and major scheme.

Stephen Atkinson:

Okay, are you able to give us an idea what your order book looks like now?

Paul Richards:

We're having difficult time keeping up with full order entry and in fact have had to not take some orders that we would like to.

Stephen Atkinson:

No, tough environment, great. Thanks a lot.

Operator:

Thank you, the next question is from Daniel [Indiscernible] [00:18:24] from Canfor, please go ahead.

Daniel:

Nice to talk to you and this guy from BMO just asked the question I wanted to ask like why is BC hydro giving you such a hard time to sell them power like we can do it. I know we can do it, because I work in the steam plant and we should be able to make as much power as they want, but they don't want to buy it at the price that they sell it, like maybe the [reporters] [0:19:08] that can help you push the government to make a deal like hydro is against you selling them power it seems?

Paul Richards:

Yeah, I actually did not saying they are giving us hard time this is just a normal negotiations.

Daniel:

So they are not giving you a hard time, how come they worked in dam all the rivers really easy for them to go there and make new dams on every [Indiscernible] [00:19:36] and BC, but no they won't let a company that's struggling to make money, they won't let them sell them money power for money so that they could stay alive like there would be a lot more pulp mills alive if they could sell power right now.

Paul Richards:

Well that's really much a different issue and as I said before they are not necessarily giving us a hard time, we're just this is just a normal negotiation.

Daniel:

Okay, but I'm glad you're making money and I hope you keep doing that and I know this thing at Northwood that you're going to do is going to make the air a lot better in Prince George, like their quality is going to improve by I see at least 10% in the whole city. And also like you said, we're going to produce way more steam and we will be able to make more power like BC government should get in on this and say, hey, we'll help you with this and give you a free turbine to help you make powers or something. Anyhow keep going and doing what you're

doing because you're sure making that place worth a lot better which I know we set a record in the last period here, in the last 35 days, we set a record and we're still in record phase with more pulp, right?

Paul Richards:

Well, thank you. Maybe operator we can go on to the next question.

Daniel:

Okay, bye.

Operator:

Thank you, the next question is from Paul Quinn from RBC Capital Markets, please go ahead.

Paul Quinn:

Yeah, thanks, good morning guys and good quarter, I like the enthusiasm of your employees. Just a question on the Green Transformation, is there any project schedule for 2010 and what percentage to the 122 we got in 2010?

Paul Richards:

Yeah, we do have a couple of projects that are smaller. There is a small one that should have a good economic return. We will spend about \$16 million; we also intend to do some environmental odor reduction work as well

Paul Quinn:

So its 16 million in 2010 very much backend loaded to 2011, I guess, do you expect I guess you're hoping to spend it all by the end of March 2012, but is there any risk at all?

Paul Richards:

There is always a risk because we still have to go through environmental impact assessments and we have to make sure we get the work done. We're actually targeting to spend more than \$122 million and we'll pay the difference, so we're targeting to try to spend more that we said under that to make sure we get the total amount spent.

Paul Quinn:

And in terms of the customer mix and sort of end use changes for the pulp, what have you noticed over the last year?

Paul Richards:

Maybe, I'll pass that one to Joe?

Joe Nemeth:

Yeah, I've mentioned this last time, we've been trying to move more and more of our sales into two end uses. One is tissue, which as you know is very stable regardless the economic climate and the other is specialty end uses and we have been successful. And that is moving away from printing and writing. What I'll stress is this is evolutionary not revolutionary, so we're gradually moving percentages across, but not in a very dramatic way.

Paul Quinn:

What about geographically?

Joe Nemeth:

Geographically we're pretty constant. We're roughly we almost say Europe 30, North America 30, Asia with the bigger two-thirds being North America and Asia.

Paul Quinn:

Okay, and just last thing on the monthly distribution is been so much volatile of late just curious what you're in I guess your intention the hold \$0.12 at least for the first half of the year given what you see in the strengths of the pulp market?

Paul Richards:

Well, when set the distribution we set at the time what we believe to be is sustainable on an annual basis and if markets change we would adjust that accordingly.

Paul Quinn:

All right, that's all I had, thanks guys.

Operator:

Thank you. As a reminder for analysts, you may press *1 if you have a question. We'll now take questions from the media if you wish to ask a question you may press *1 at this time. There are no questions registered at this time. I would like to return the meeting back over to Mr. Richards.

Paul Richards:

Well, again, thank you everybody for joining us. If you have any questions or follow up concerns, please do not hesitate to call and we'll talk to you again next quarter. Thank you very much.