

**Canfor Pulp Income Fund
Q1-2010 Conference Call
8:00a.m. (Pacific time) April 28, 2010**

Company Participants:

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

Operator:

Welcome to the Canfor Pulp Income Fund's First Quarter 2010 results conference call. Managements' comments today, unless otherwise noted, relate to the operating entity Canfor Pulp Limited Partnership of which Canfor Pulp Income Funds owns 49.8%. Please be advised the call is being recorded and webcast live on the company's website canforpulp.com. A recording of the call and 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 26, 2010 press release for the associated risk of such statements. I would now like to turn the call over to Mr. Paul Richards, Outgoing President and CEO of 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 will be Terry Hodgins, our CFO; Joe Nemeth, our incoming CEO; and Brett Robinson our Vice President of Operations. I will offer some comments on the first quarter after which Terry will provide his financial commentary and then Joe will provide some comments on our outlook for the remainder of 2010.

On Monday, we reported for the first quarter sales, of \$240 million dollars, net income of \$32 and a half million dollars, EBITDA of over \$44 million dollars and adjusted distributable cash of \$0.57 per unit.

Steady pulp demand and supply side reductions have resulted in tight market conditions as global softwood pulp inventories stood at 23 days of supply in March, which is unchanged from the end of December and below what would be considered a balanced market. The largest market impact in the first quarter was the Chilean earthquake on February 27, which is expected to remain approximately 8% of global softwood pulp supply for an expected duration of two to three months. Additional impacts on global softwood pulp supply were weather related issues in the US South and Russia throughout the first quarter and a Finnish port strike in March of that quarter.

These market conditions have enabled producers to implement price increases totaling \$80 US in North America throughout the first quarter. The weakening US dollar has diminished 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.

Now on our operations, first quarter results were negatively impacted by a shutdown at the Prince George Pulp and Paper Mill, which reduced pulp production by approximately 22,000 tonnes and reduced EBITDA by approximately \$11 million dollars in the quarter. The annual maintenance outage originally planned for the second quarter of 2010 was completed in the first quarter while the mill was down, thereby, eliminating the need of a shut at this mill in Q2. Mitigating the production loss at the PG Mill was a record quarter at the Northwood Pulp Mill for both total tonnes and average daily rate.

Unit manufacturing cost decreased in the first quarter compared to the fourth quarter on higher production volumes and effective cost control. Fiber cost increased marginally in the quarter due to an increase in the price of sawmill residual chips, which are tied to pulp prices. This price increase was partially offset by our ability to reduce the cost and volume of our round wood chipping initiative (which represented 27% of total volume as compared to a peak of 40% in the third quarter of 2009). And we expect to virtually eliminate whole log chip deliveries by the end of the year.

To update the status of our progress on the Green Transformation Program, the Partnership has been allocated \$122 million to be spent on qualifying energy and environmental capital projects by March 31, 2012. The Partnership has submitted two projects for program approval and expects to submit further projects within the next couple of months. We expect that funding

will begin to flow from the program on a cost reimbursement basis sometime later this year. In addition to environmental improvements, we expect economic benefits from these projects to be reflected in operating and financial results beginning in 2011.

I will now hand the call over to 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 to highlight some specific items and their impact on their financial results.

For the first quarter, the Partnership reported EBITDA of 44.1 million compared to 27.3 million in the fourth quarter of 2009. The major elements comprising the change in the quarter-over-quarter EBITDA were approximately 14 million from increased pulp and paper prices net of currency impact and approximately three and a half million from lower unit manufacturing costs. Fourth quarter 2009 included a major maintenance shut at the larger Northwood Mill, the impact of which was greater than the impact of the PG power boiler shut in the first quarter of 2010.

While the pulp segment showed an \$18 million quarter-over-quarter increase in EBITDA on the strength of higher pulp prices, the paper segment's EBITDA decreased by approximately a million dollars. Increased sales prices and volumes for paper were offset by higher prices for slush pulp, as we transfer pulp to the paper segment at market, and the impact of lower production volumes on unit manufacturing cost also impacted the paper results.

Our cash position increased \$21.2 million in the quarter. The increase in cash was attributable to the higher cash generated from operations, net of increases in distributions paid to unitholders. We ended the quarter with \$34.7 million in cash and no cash draws on our operating line. As it would be expected with the strong EBITDA generation, we remained in compliance with all debt covenants on both the long term note agreement and the bank facility at March 31, 2010 and we do not anticipate any covenant or liquidity issues during the year.

Regarding our 2010 capital expenditure program, we expect to spend \$36 million on capital projects of which \$16 million will qualify for Canadian Federal Government funding under the

Green Transformation Program. The remaining \$20 million will be funded from operating cash flow.

At our annual general meeting yesterday, the unitholders approved the plan of arrangement to convert to a corporation on January 1, 2011. Under the arrangement, the fund units will be exchanged for shares of a new corporation, Canfor Pulp Products Inc., which will ultimately own the fund's 49.8% interest in the pulp partnership. To be clear, the conversion is not expected to affect the operating business of the Partnership in anyway.

No further action is required by unitholders at this time. As we approach the end of the year but well in advance of the pending conversion date, we will be advising if any specific action is required by each of the unitholders in order to complete the conversion and exchange of units for shares. With the conversion on January 1, 2011, we do not expect a change in the distribution policy from the Partnership. And the trustees of the Fund, who will be the new directors of the corporation, intend to distribute, as quarterly dividends, substantially all of the cash distributions received from the Partnership, less amounts required for income taxes and other obligations. The directors do not currently intend to accumulate material cash balances in the corporation.

In light of the stronger earnings in the first quarter and projected earnings for the balance of the year, the Board increased the monthly distribution from \$0.12 to \$0.20 cents per unit commencing in the month of May for payment on June 15. As has been our stated policy, during the year distributions are based on estimates of full year cash flow, debt service cost and capital expenditures. Based on our current view of these items and our current view of the pulp markets, we believe that the \$0.20 per month distribution is sustainable through the remainder of the year.

I will now turn the meeting over to Joe.

Joe Nemeth:

Thanks Terry. As we previously reported, we had a maintenance outage at the Prince George Pulp and Paper Mill in the first quarter of this year. In April, we completed a maintenance outage at the Intercontinental Pulp Mill with an estimated 9,000 tonnes of reduced production. For the balance of 2010, we have a scheduled maintenance outage at the Northwood Pulp Mill

in Q3 estimated to reduce production by approximately 10,000 tonnes. No maintenance outages are scheduled for the fourth quarter of this year. Turning now to what we see in the markets, pulp producers have implemented a price increase in April of \$50 US a tonne in all markets and have announced a further price increase of \$30 to \$40 for May. Announced April list prices for NBSK delivered to the North American market are now \$960 per tonne. They are US \$930 per tonne in Europe and on a net basis US \$840 per tonne in Asia; using China as the benchmark market Asian pricing. As mentioned earlier, these price increases are a result of continued tight markets.

We expect the market to remain tight through the second quarter of 2010 due to strong seasonal demand and continued supply curtailments. In addition to the Chilean curtailments, approximately 10% of global softwood capacity is still idle and some mill restarts will be required to help absorb the current supply short fall. In closing, we hope to leverage the current favorable market conditions by continuing to maximize production and maintain the cost gains we have made in previous quarters.

Operator, that concludes our prepared comments, we are now ready to take questions.

Operator:

Thank you. We will now take questions from the telephone lines. We will first take questions from financial analysts followed by the media. If you have a question, please press star one on your telephone keypad. If, at anytime, you would like to cancel your question you may press the pound sign. If you are using a speakerphone, please lift the handset before making your selection. Please press star one at this time. There will be a brief pause for participants to register and we thank you for your patience.

The first question is from Daryl Swetlishoff from Raymond James. Please go ahead.

Daryl Swetlishoff:

Well thanks. Good morning, guys. Just a question on fiber cost towards the end of this year when you reduce whole log chipping, could you give us an idea or guidance on what the delta we can expect going forward after that occurs?

Paul Richards:

Daryl, delta from what period you are talking about or – I am not sure of the question.

Daryl Swetlishoff:

I guess, if we look at, say the last quarter fiber costs what they were, if we were to accomplish a goal of reducing whole log chipping to very little levels by the end of the year. What sort of improvement on fiber cost could we expect?

Paul Richards:

Of course, probably the first question you need to know and we don't have an answer to this is: "Where are pulp prices going to be because fiber costs are tied to the pulp mill nets?" And as a result, I can't tell you where they will be. What I can say is they will be close to zero on the whole log chips and the differential from whole log chips to residual chips today is not as high as it used to be. It's only in the \$10 to \$15 per tonne range and depending on where the pulp price goes. In other words, if in fact, the pulp prices are higher in Q4 than they are today, I am sorry, if the fiber costs are higher in Q4 than they are today by any amount that would mean that the pulp prices are higher and we would probably like that.

Daryl Swetlishoff:

Right, right, can you speculate about, if we have more normalized logging production in the region. I mean, at one time, spot fiber costs were very low in the \$25 to \$30 tonne range under a more normalized lumber production scenario and assuming pulp prices don't change, what could we see – fiber cost going to under that sort of situation do you think, longer term?

Paul Richards:

Yeah, you are right. What I would say is the contract price has been lower than it is today. You know, not a significant amount but lower – spot prices could get very low. Now, we won't play in the spot market and we didn't the last time around and spot prices I would imagine could get very low and so people from outside the region would be able to take the advantage of that and pay the lower rates. The contract prices could go, potentially over the long term go, let's say 10-15% below where they are today but realistically, we are tied to contracts that are two to three years long and we wouldn't expect to see anything in that timeframe.

Daryl Swetlishoff:

Okay, that's helpful. Lastly, I just like to wish you best of luck Paul. I hope retirement sticks this time.

Paul Richards:

Yeah, thanks a lot Daryl.

Operator:

Thank you. The next question is from Stephen Atkinson of Bank of Montreal. Please go ahead.

Stephen Atkinson:

Thanks. First question, when you mentioned the savings using how do you call it, with the elimination of whole log chipping is that, the \$10 to \$15 is that per bleached tonne or per tonne of wood?

Paul Richards:

Per tonne of chips.

Stephen Atkinson:

So that's per tonne of chips. Okay and my next question, I suppose. I wish that the whole log chipping the reason for that was then you could take leftovers, shall we say beetle damaged wood. Is that the case or how are you going to get around that?

Paul Richards:

Well, as we get further out and, my guess would be in the let's say in five to ten years out, we probably are going to have to have and make use of the whole log chips because perhaps potentially sawmills will have a more difficult time running what's remaining of the pine beetle. Today, though, the reason we have used whole log chips is that sawmill production was down. We didn't use it because we had to consume beetle wood. We used it because that's what we needed and we didn't use it because it was being forced upon us. It's because that's what we needed in order to balance the fiber supply. What happened over the last little while, is that sawmills are picking up production gradually. Also, other users in the region have been shut down and so more fiber, more residual sawmill fiber, has become available and, today, frankly, we have more chips I think than we have ever had. We have in the forty plus day range and so

we are just backing off and it's a good story in a way. We have continually been able to pick up on more residual chips at lower prices, which is, over the long term, going to drive the price down or the cost down as we complete our commitments that we have to bring whole log chips in.

Stephen Atkinson:

Okay. That's great and so that in terms of the – who are you competing with for the wood?

Paul Richards:

Other pulp and paper producers in the region.

Stephen Atkinson:

Okay. It wouldn't be the OSB guys?

Paul Richards:

No, no, no.

Stephen Atkinson:

Okay, okay and so that, in terms of the maintenance, if I am understanding it correctly, the impact of maintenance first quarter, second quarter, and third quarter, the maintenance cost should be relatively the same. Is that a good assumption?

Paul Richards:

I would think that the maintenance cost will be lower in the second and third quarters than they were in the first quarter. First quarter would be several million dollars higher than we would expect to see in the others.

Stephen Atkinson:

Okay, thanks and in terms of the policy, where you mentioned or that there would be no change in distribution as you said Terry, would the firm consider share buy backs.

Terry Hodgins:

I suppose, Stephen, that's a consideration, but if we look at our capitalization, we are what would be considered certainly a small cap stock and I think buying back would just exacerbate

any issues one might have when you think about liquidity in the marketplace. So I think that it is unlikely we would take that avenue.

Stephen Atkinson:

Okay, but if someone was to sell their stock then you might consider it?

Terry Hodgins:

I guess we would look at the circumstances and see.

Stephen Atkinson:

Yeah okay.

Terry Hodgins:

Okay.

Stephen Atkinson:

Okay and so a question for Joe. What does your order backlog look like right now?

Joe Nemeth:

Yeah, we are currently behind and it's anywhere from two to three months behind primarily in the Asian market. We need to stay current for Europe and US based upon the way the supply chain is managed. But, we are behind today, Stephen, so our inventories are very low, similar to what you see in the market and we are well behind on our shipments.

Stephen Atkinson:

Okay, now that's great and last question on, where, you mentioned in the first quarter that Northwood was running very well. Could I assume that there would be an increase in the capacity of the company?

Paul Richards:

Well, one quarter does not a spring make or something like that, but I will say this that the production record in Northwood was substantial and it was, it likely will be by the end of the year you will see an up tick in the capacity, probably in excess of another ten thousand tonnes.

Stephen Atkinson:

Oh that's great. Are you able to tell me how you did it or just running better?

Paul Richards:

It's all about the people.

Stephen Atkinson:

Okay and so to dominate the questions last one, on the Green Transformation Program I had been running with a, it could be anything but I have been using a 10% return is that a good approach?

Paul Richards:

I think that is a fairly good conservative approach.

Stephen Atkinson:

Okay, great thanks a lot.

Operator:

Thank you. The next question is from Graham Meagher of TD Newcrest. Please go ahead.

Graham Meagher:

I would like to get a little bit more color on what you are seeing in China. You had mentioned the backlogs of two to three months or so, but are you in the spot market there and can you talk about pricing and just sort of general demand conditions there?

Joe Nemeth:

Okay, you asked about three questions correct, so jump in if I don't answer them. The first is the general market and let me take a minute here to get some context, where it is today; a short answer is it's about back to what I would say is trend, which has been about an eight to ten percent year-over-year annual average growth rate so it is kind of back to that level. To provide context though, because there is so much discussion regarding China, remember China de-stocked heavily at the end of 2008 and then restocked and bought way over trend in the first half of 2009. So just to give some context and there has been so much discussion around what really happened. Was it restocking or was that a replacement of domestic production being

shut in China. Whether it was restocking, clearly some of that was true because they de-stocked heavily in 2008. Beyond that, it's hard to tell so the bottom line is we are seeing demand in China back to trend after those two big changes. Second question, you asked, if I recall correctly is, do we participate in the spot market and the answer is no. Today, 100% of our sales is contracted tonnage and as mentioned earlier, we are unable to keep up with the demand and as I speak today, we are behind two to three months. Regarding the third question and forgive me but I missed it.

Graham Meagher:

Just on pricing but if you are in the contracts, contractor market is it fair to say you are seeing pricing along the lines of what we see in the list?

Joe Nemeth:

Correct, as there is no discount on pricing. What is listed is what must be paid for.

Graham Meagher:

Great thanks very much.

Operator:

Thank you. Once again, please press star one for any questions or comments. The next question is from Paul Quinn of RBC Capital Market. Please go ahead.

Paul Quinn:

Yeah, good morning and thanks guys. Couple of questions here on just fiber supply balance with the potential restart of MacKenzie, is that an issue?

Paul Richards:

No.

Paul Quinn:

Okay, that was easy. What's the, what's your assessment of the Swedish strikes and you know the prior Finnish dock workers actions on the global marketplace?

Paul Richards:

Yeah, both of them were contributing but small events to the overall balance. The big ones put in perspective, is the amount of pulp mills that shut over the last two years that have not restarted -- that's 10% of global softwood capacity and the Chilean earthquake which in the month of March was almost another ten percent. Those other two events might have individually been less than one percent impact because they were short term.

Paul Quinn:

Okay great, and in terms of your customer geographic mix has that changed at all over the last overall?

Joe Nemeth:

Yes, we have trended overtime, as we mentioned we are geographically balanced so that's the first important point meaning that we have rough and dirty, a third to Europe, a third to North American and a third to Asia so that's a conscious strategy. Having said that the trend and this has been a gradual shift so its an evolution, not a revolution, we have been growing with the growth market Asia and we have been trying to keep a strong hold in our domestic market North America. So today, those thirds aren't equal; the North American and Asian thirds are bigger than the European third that's the main shift.

Paul Quinn:

I mean that's all I had. Just a comment to Paul, got to miss your knowledge, your insight and especially your humor, congratulations on the retirement and big shoes to fill there Joe.

Paul Richards:

Thanks Paul.

Joe Nemeth:

Yeah. Thanks Paul.

Operator:

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

Paul Richards:

Actually to Joe thanks.

Joe Nemeth:

Okay. Thanks operator. It's Joe Nemeth speaking. I would like to take this opportunity to thank Paul Richards for his leadership as President and CEO since the spinout of Canfor Pulp in July 2006 and we all wish Paul all the best in his retirement. Thank you again to all of you for joining us today and please call if you have any follow-up questions.

Operator:

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