

# Canfor Pulp Income Fund

An aerial photograph of a large industrial pulp mill complex, featuring several large buildings and a prominent smokestack. The mill is situated in a vast, dense forest. A large, semi-transparent blue circle is overlaid on the right side of the image, containing the text "Investor Presentation" and "March 2007".

## Investor Presentation

March 2007

# Disclosure of Risk Factors

Certain statements in this presentation constitute "forward-looking statements" which involve known and unknown risks, uncertainties and other factors that may cause actual results to be materially different from any future results, performance or achievements expressed or implied by such statements. Words such as "expects," "anticipates," "intends," "plans," "will," "believes," "seeks," "estimates," "should," "may," "could" and variations of such words and similar expressions are intended to identify such forward looking statements. The risks and uncertainties are detailed from time to time in reports filed by Canfor Pulp Income Fund and Canfor Pulp Limited Partnership (Canfor Pulp or Partnership) with the securities regulatory authorities in all of the provinces and territories of Canada to which recipients of this presentation are referred to for additional information concerning the Partnership, its prospects and uncertainties relating to the Partnership and its prospects. These statements are based on management's current expectations and beliefs and actual events or results may differ materially. New risk factors may arise from time to time and it is not possible for management to predict all of those risk factors or the extent to which any factor or combination of factors may cause actual results, performance and achievements of the Partnership to be materially different from those contained in forward-looking statements. The forward-looking statements are based on current information and expectations and the Partnership assumes no obligation to update such information to reflect later events or developments, except as required by law.

In this presentation, references are made to EBITDA (Earnings before Interest, Taxes, Depreciation and Amortization) and distributable cash. Canfor Pulp considers EBITDA and distributable cash to be an important indicator for identifying trends in the performance and of the Fund's ability to generate funds to meet its debt service, capital expenditure requirements and to make cash distributions to its partners. EBITDA and distributable cash is not a generally accepted earnings measure and should not be considered as an alternative to net income or cash flows as determined in accordance with Canadian generally accepted accounting principles. As there is no standardized method of calculating EBITDA and distributable cash, the Fund's use of these terms may not be directly comparable with similarly titled measures used by other entities.

Unless otherwise noted, all financial references are in Canadian dollars.

# Company Overview

## 3 mills in the central interior of British Columbia

- Pulp capacity of 1.0 million tonnes
- Kraft paper capacity of 135,000 tonnes
- 4 pulp machines and 1 paper machine

## Spun out from Canfor Corporation on July 1, 2006

- Canfor currently owns 50.2%

## CFX.UN

- Float of 35.5 million units on the TSX
- Market capitalization = \$507 million \*

\* Unit price as at March 16, 2007



Northwood



Intercon and Prince George Pulp & Paper

# Why Canfor Pulp?

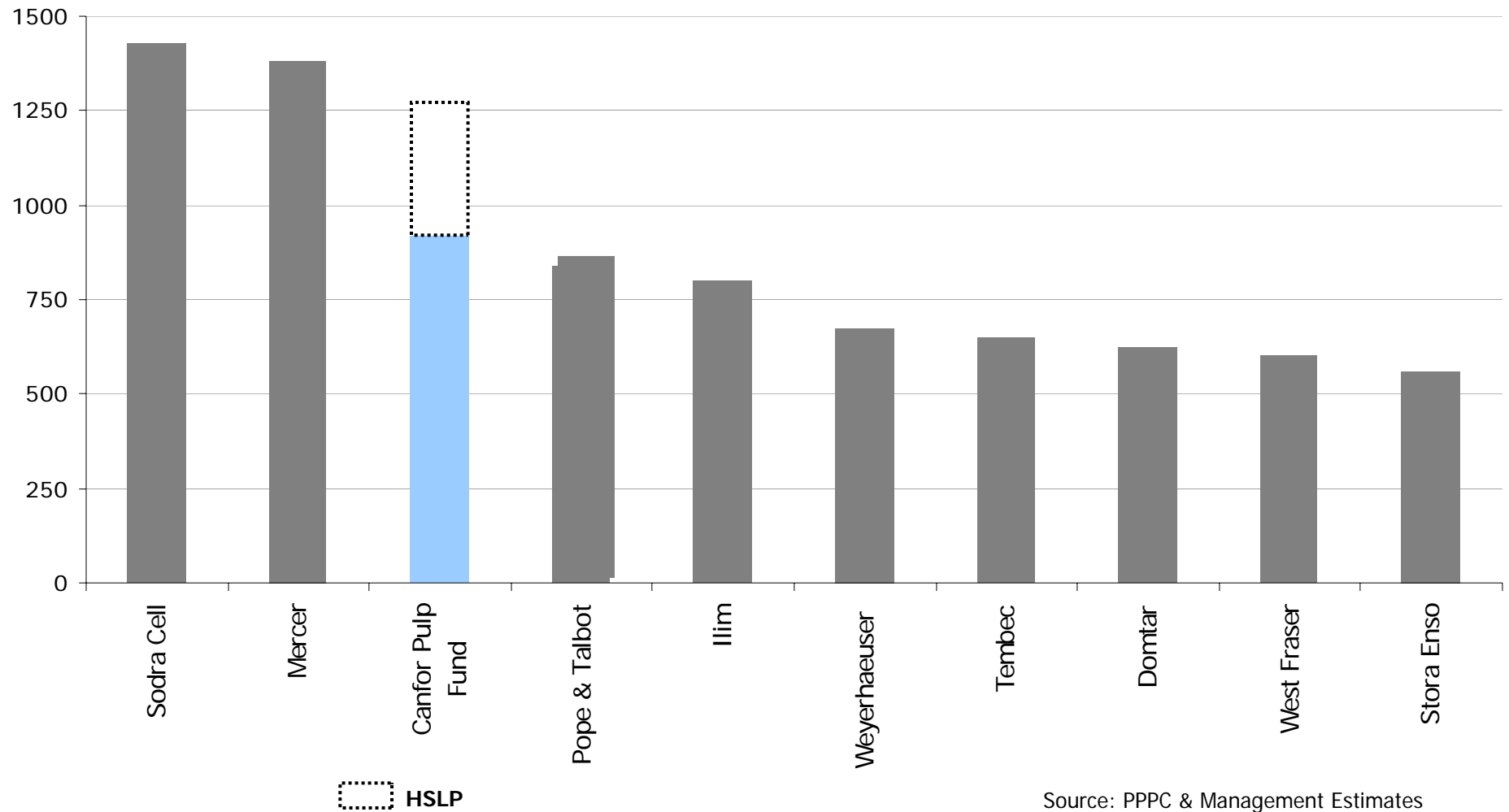
- Market leadership
  - Size
  - Premium Product
  - Customer Base
- Low cost producer
- Abundant fibre supply
- Financial strength
- Experienced management team \*

\* Refer to Appendix for Officer Biographies



# Market Leadership

Largest NBSK producer in North America and 3<sup>rd</sup> largest globally



Source: PPC & Management Estimates

# Market Conditions: Supply Shock Rally

## Strong demand

- World 19 shipments up 4% in 2006

## Tightening supply

- 1.4 million tonnes of NBSK capacity shut since Jan 2005

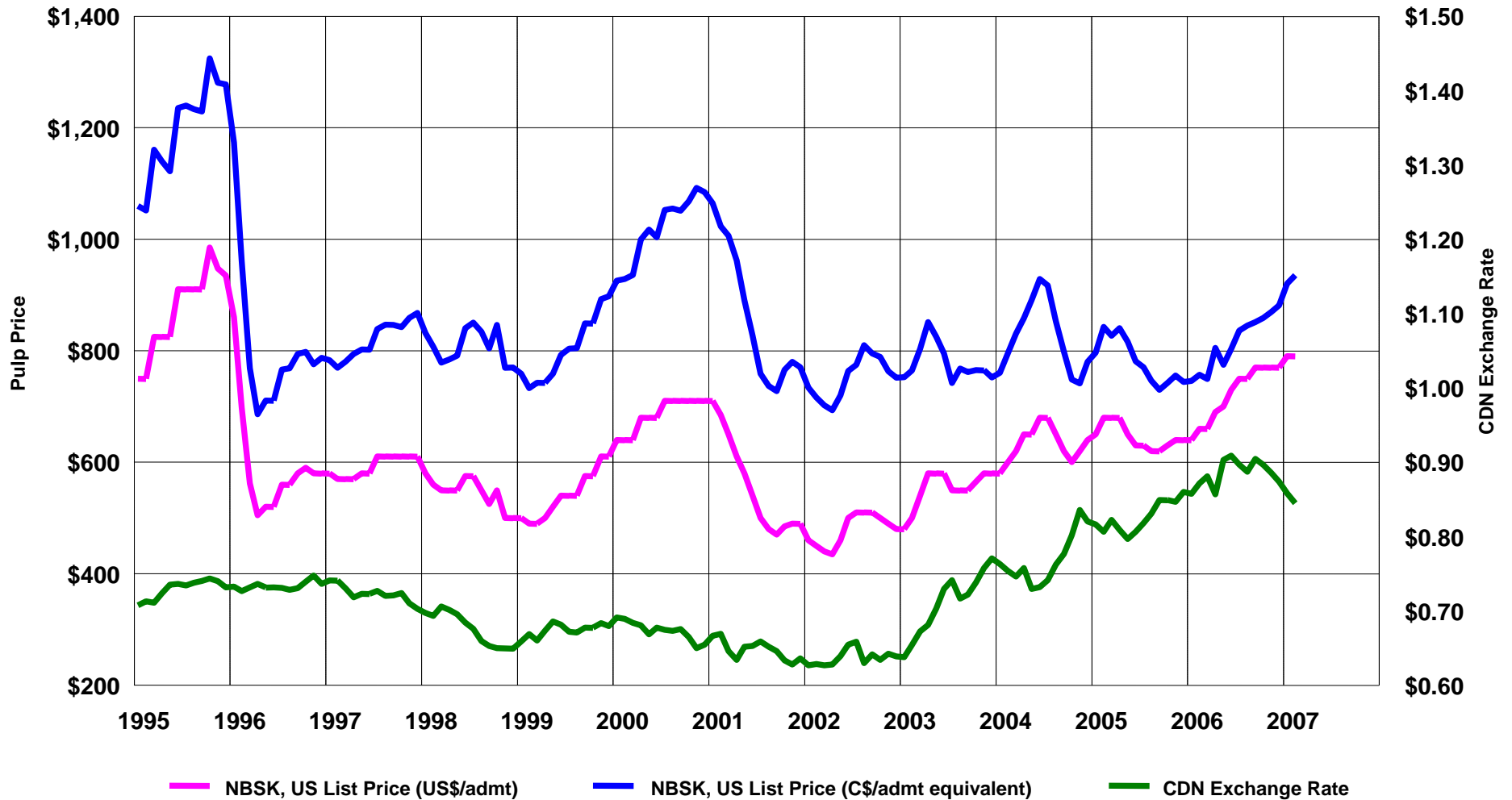
## **RESULT: Low inventories and Increasing Prices**

- Softwood producer inventories at 26 days versus normal 30 days
- NBSK pulp prices up 22% since Jan 2006

Source: PPC and Management Estimates

# Market Conditions: Prices

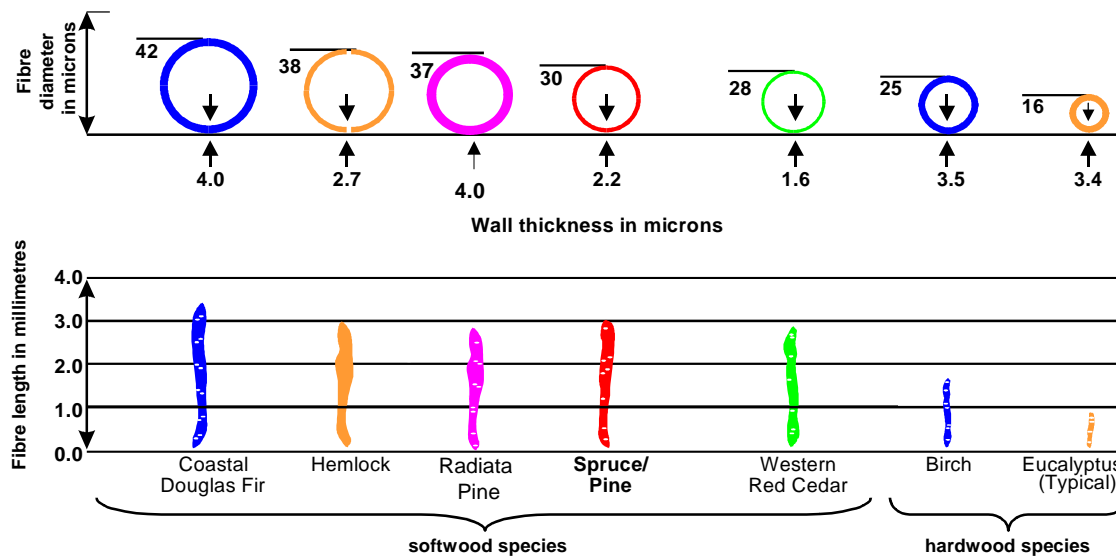
**NBSK List Prices delivered to North America  
In US\$, Cdn\$ and CDN/US exchange rate  
1995 - Current**



# Premium Products : Reinforcing Pulp

- Fibre produced in the central interior of British Columbia is recognized as being the strongest in the world due to the long, slender fibres derived from the northern spruce and pine.
- This fibre is the best to produce a reinforcing pulp, which in turn commands a premium price.

## Typical Fibre Dimensions

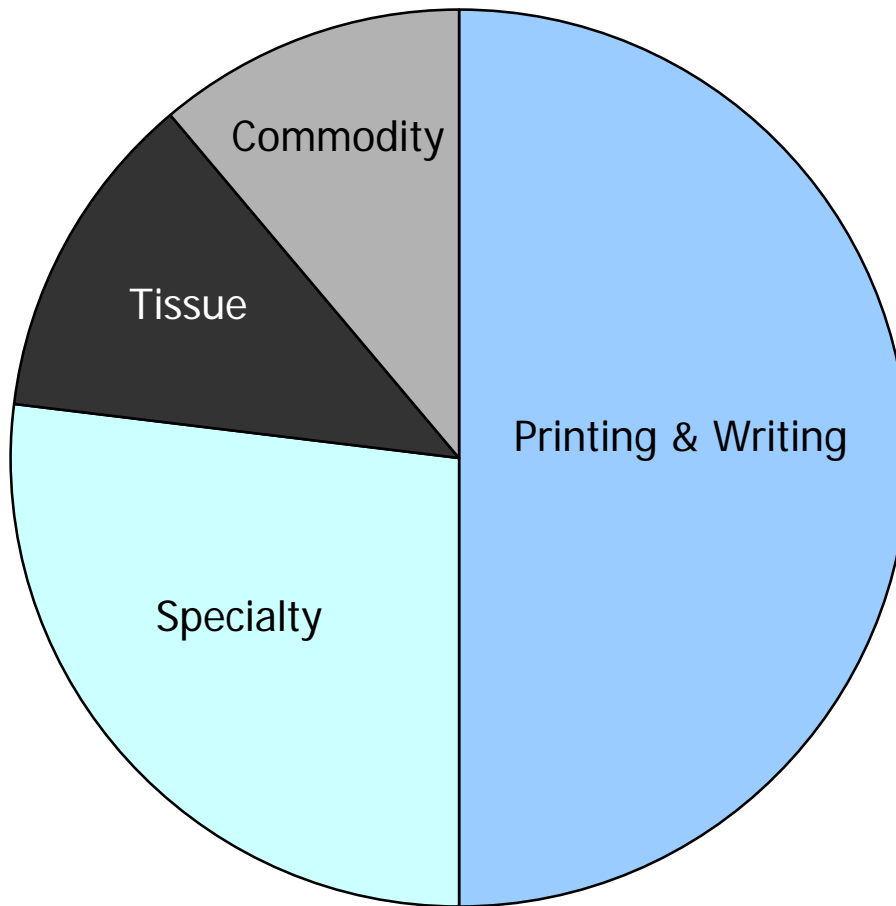


"Weight weighted lengths measured by Kajaani FS200"



# End-Use Customers (2006)

## Target customers that need reinforcing pulp



Examples include:

### Printing & Writing

- Magazines
- Catalogues

### Specialty

- Adhesive labels
- Masking tape

### Tissue

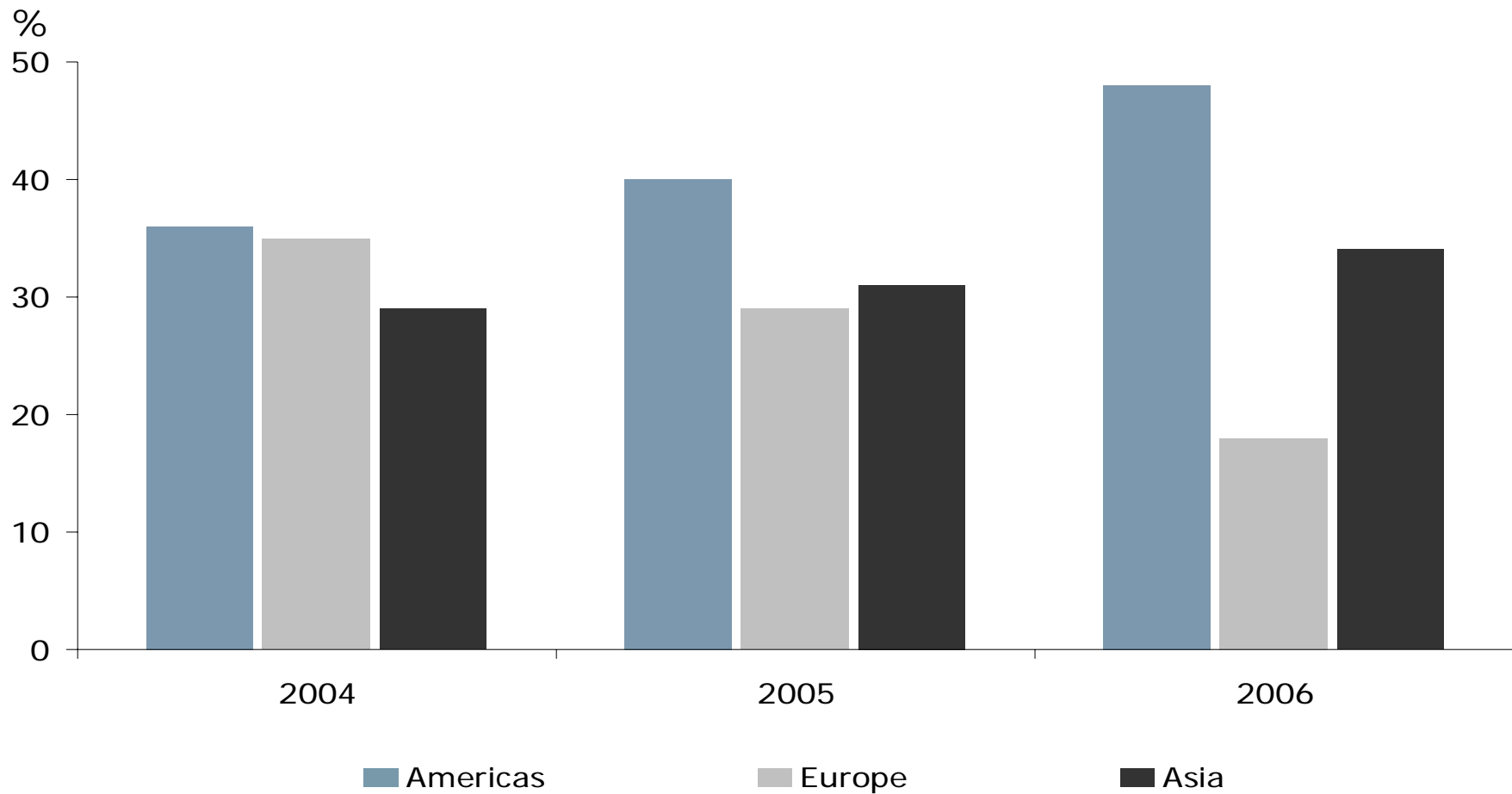
- Branded top quality "Use at-home" tissues

### Commodity

- Photocopy paper

# Regional Sales

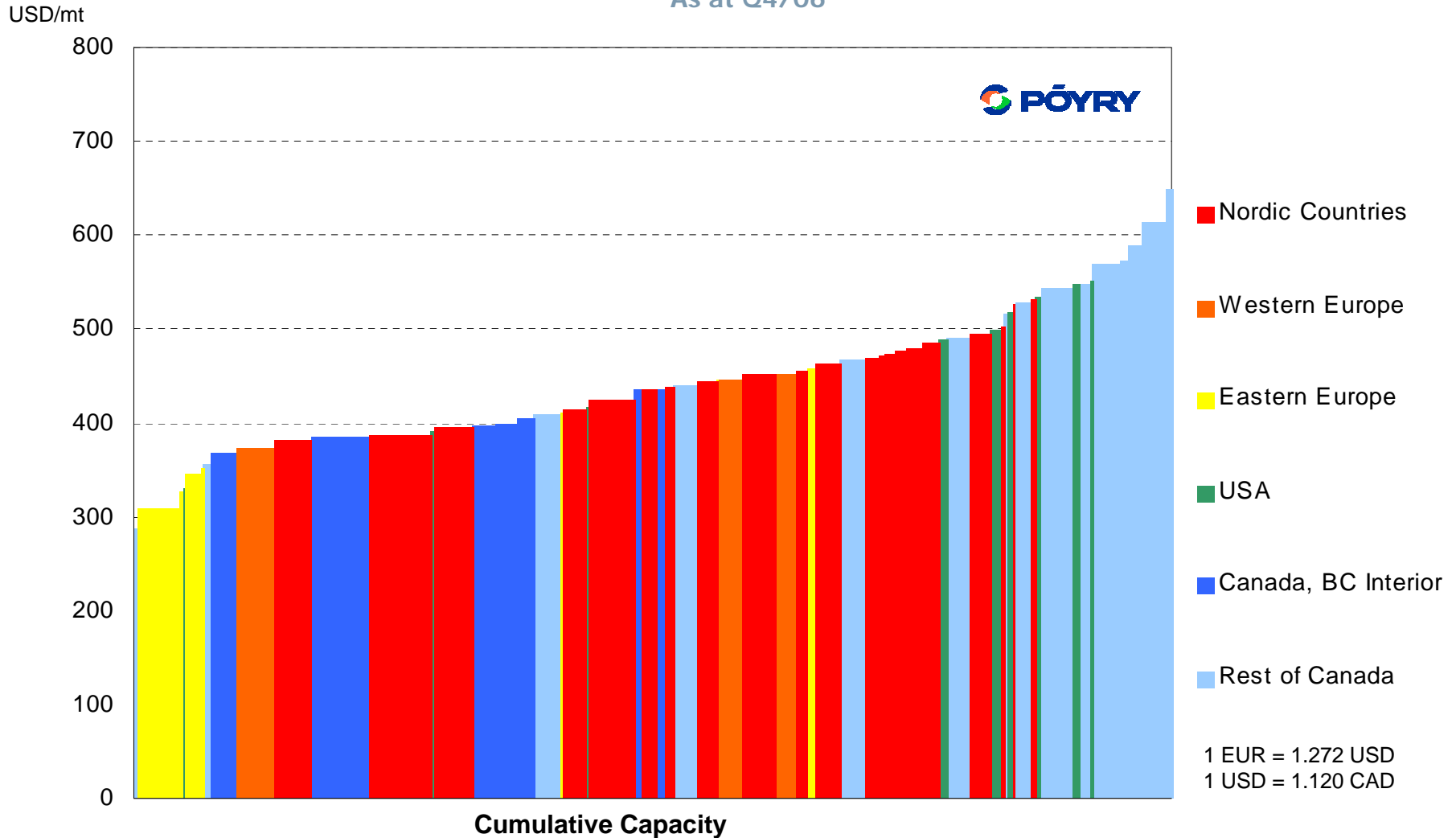
## Targeted sales into higher margin regions



# Low Cost Producer

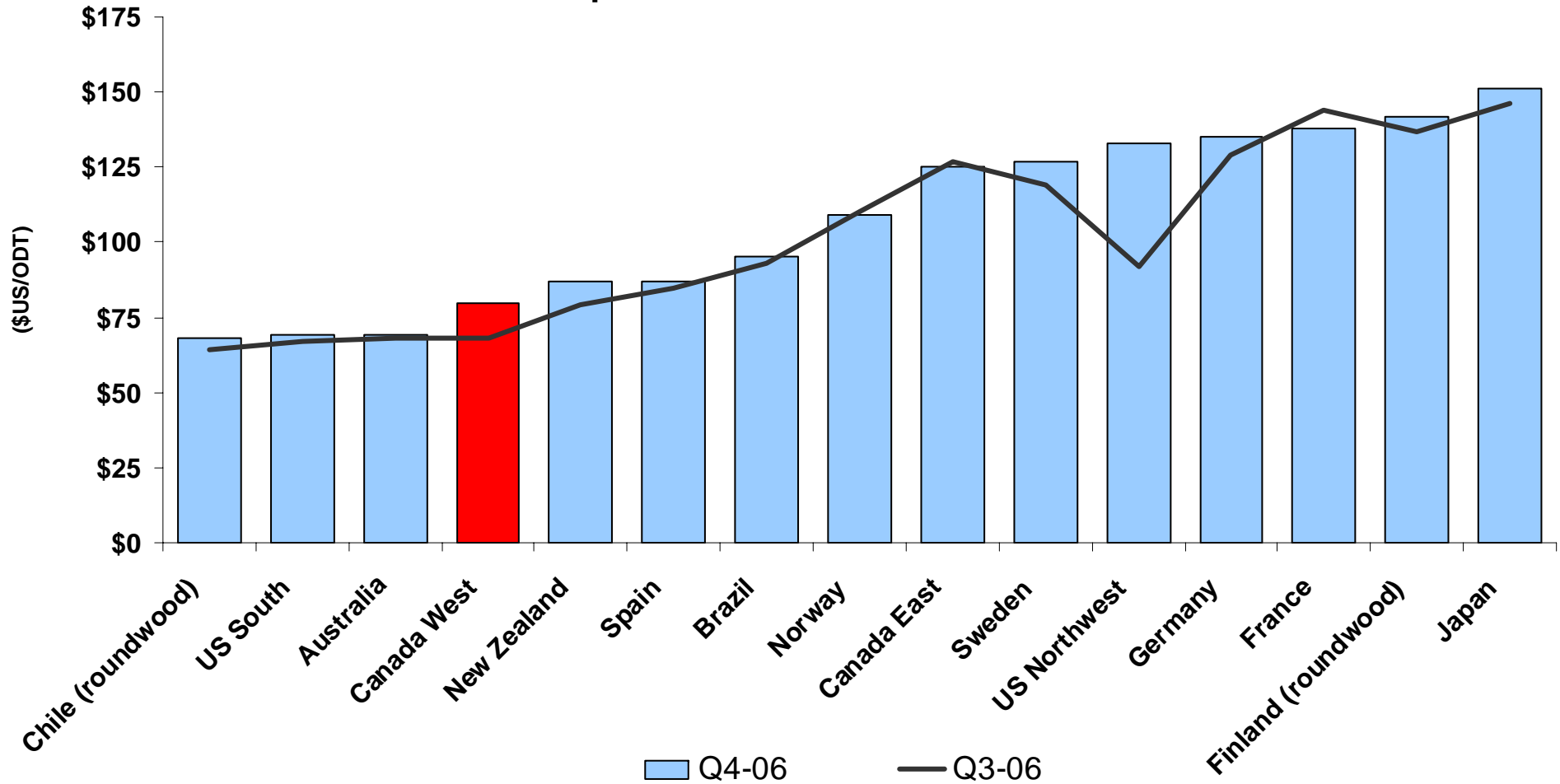
## Northern Bleached Softwood Kraft Manufacturing Costs

As at Q4/06



# Low Fibre Costs

Conifer Chips - Delivered Prices Q3 vs. Q4 / 06



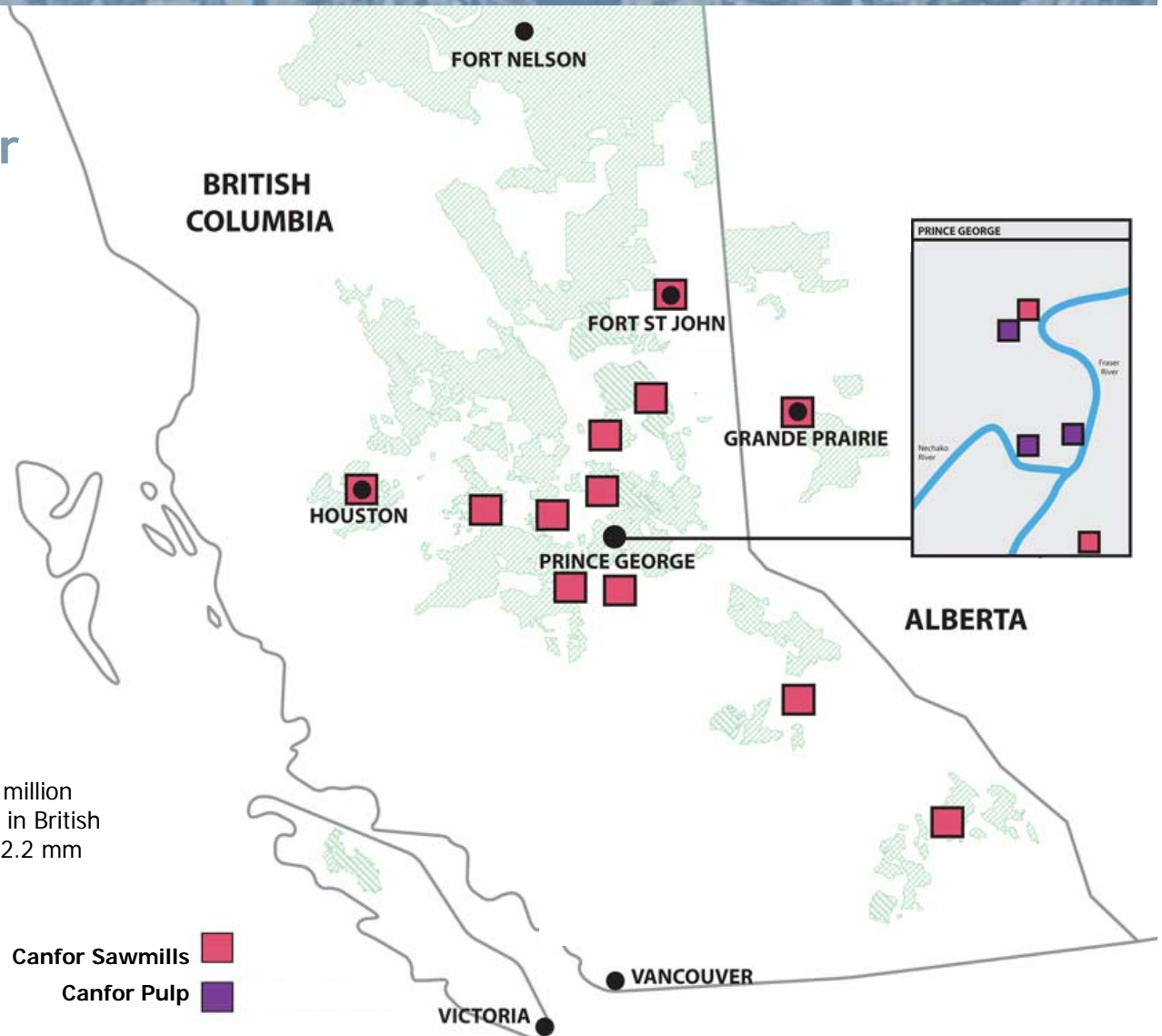
Source: Wood Resources International

# Secure Fibre Supply

## Fibre Supply Agreement with Canfor

- Purchase 1.6mm tonnes of fibre (roughly 2/3 of its needs) from Canfor at prevailing market prices
- 0.9mm tonnes purchased through fibre supply agreements with other firms
- All contracts based on the same pricing formula

Note: Canfor's lumber mills control more than 10 million cubic meters of allowable annual cut (AAC) in British Columbia and Alberta and produce total of 2.2 mm tonnes of chips in BC.



# High Margin Producer

## Top Quartile EBITDA per tonne producer due to:

- Revenues
  - Selling into the highest margin regions to targeted customers
- Low costs
  - Low cost fibre
  - Strong operations which drives low production costs

Per PwC 2005 benchmarking study of 18 Canadian NBSK mills, Canfor's mills were Top Quartile

# Financials

Strong year over year results reflect improved pulp prices, strong operations, Cogeneration project benefits, lower chip prices, but offset by a stronger Canadian dollar

Selected financial results:

	Canfor Pulp Limited Partnership			
	3 months ended		Year ended	
	Dec 2006	Dec 2005	Dec 2006	Dec 2005
Sales volume (mt)				
- Pulp	249,800	260,700	1,001,500	982,100
- Paper	32,900	31,100	124,600	127,200
Pulp Prices (\$/mt)				
- Ave in USD	730	600	683	611
- Ave in CDN\$	831	704	774	741
Ave Cdn/USD exchange rate	0.878	0.852	0.882	0.825
Sales (\$ millions)	229.0	195.9	834.4	771.2
EBITDA (\$ millions)	61.9	29.0	184.1	63.9
<i>margin %</i>	<i>27%</i>	<i>15%</i>	<i>22%</i>	<i>8%</i>

Refer to Appendix for more financial results

# Distributable Cash

## Calculation of Distributable Cash

<i>\$ millions unless otherwise noted</i>	3 months ended	6 months ended
	Dec 2006	Dec 2006
Cash flow from Operations	62.6	99.9
Changes in working capital	1.0	22.8
Less: capital expenditures	(5.1)	(11.1)
financing costs	(1.6)	(1.6)
Distributable Cash	56.9	110.0
- per unit	\$0.80	\$1.54

## Distributions announced

<i>\$ per unit</i>	Monthly	Supplemental	Total
2006 (6 months)	\$0.74	\$0.50	\$1.24
January 2007	\$0.14	-	\$0.14
February	\$0.14	-	\$0.14
March	\$0.14	-	\$0.14



# Balance Sheet

## Maintain a strong balance sheet

<i>\$ millions</i>	As of Dec 31, 2006
Cash	28.4
Current Assets	261.7
Fixed Assets	603.3
<b>Total</b>	<b>893.4</b>

<i>\$ millions</i>	As of Dec 31, 2006
Current & Other Liabilities	184.2
Long Term Debt	128.2
Equity	581.0
<b>Total</b>	<b>893.4</b>

- Net Debt/EBITDA (Annualized) = 0.54
- Net Debt/Equity = 0.17
- Yield (as at March 16, 2007 price) = 11.8%

# Capital Expenditures

## 2007 capital plan is approximately \$30 million

- \$20 million for maintenance of business
- \$10 million for improvements (i.e. lower costs or increase production)

# Operations Strategy

## Remain Top Quartile EBITDA per tonne Producer

- Continue to improve reliability / productivity
- Focus on controllable costs
- Grow targeted end-use businesses
- Position right products / customers

# Summary

- Market leadership
  - Size
  - Premium Product
  - Customer Base
- Low cost producer
- Abundant fibre supply
- Financial strength
- Experienced management team



# Canfor Pulp Income Fund



Questions?

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Contact:

David Jan

Manager-Investor Relations

604-661-5424

David.Jan@Canfor.com

[www.canforpulp.com](http://www.canforpulp.com)