

# Canfor Pulp Income Fund

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

## Investor Presentation

September 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.

# 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

## Business spun out from Canfor Corporation on July 1, 2006

- Canfor currently owns 50.2%
- Canfor Pulp Income Fund (CFX.un) owns 49.8%

## CFX.UN

- Float of 35.5 million units on the TSX
- Market capitalization = \$475 million \*

\* Unit price as at August 28, 2007



Northwood



Intercon and Prince George Pulp & Paper



# Why Canfor Pulp?

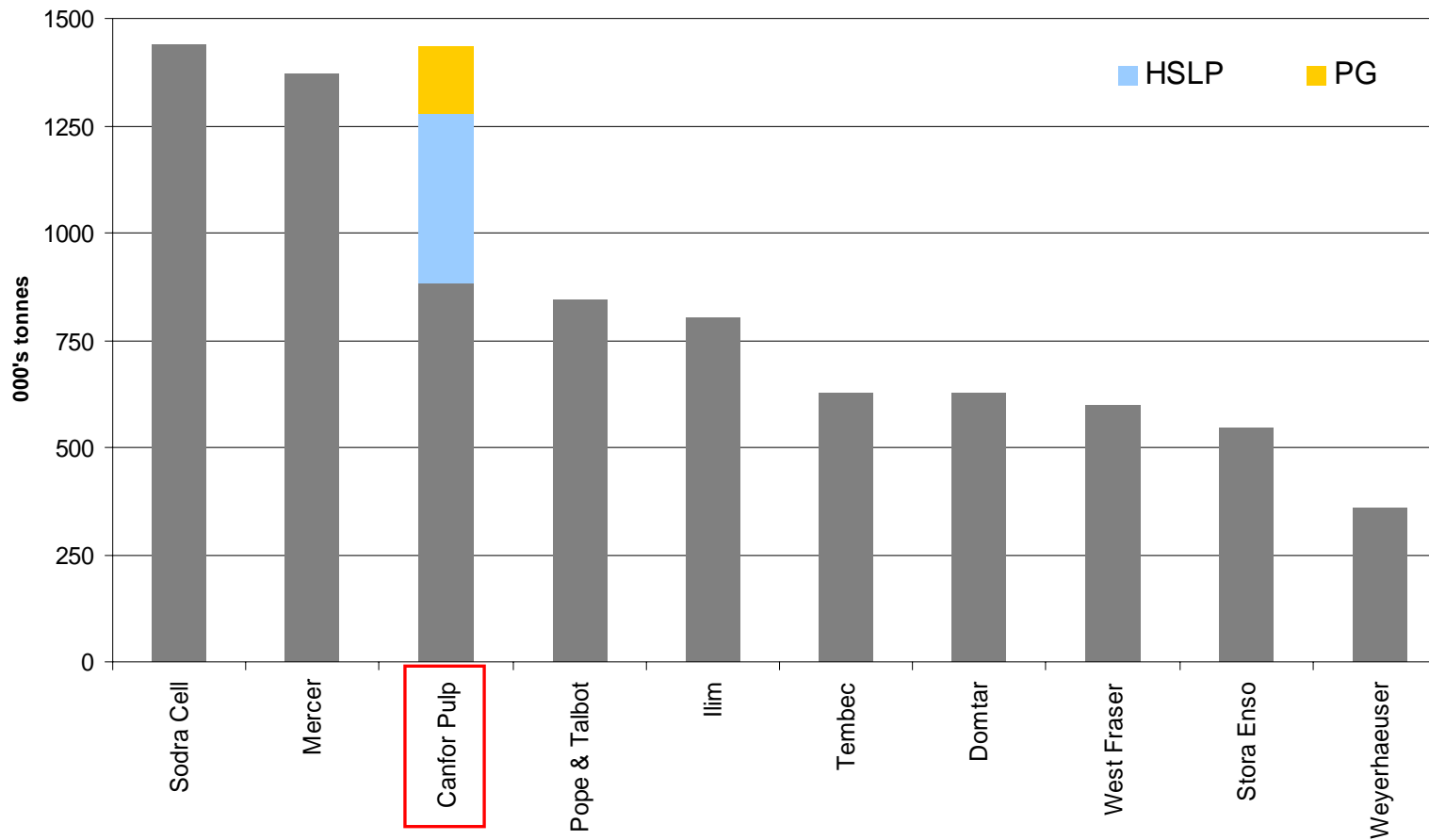
- Market leadership
  - Size
  - Premium Product
  - Customer Base
- Low cost producer
- Financial strength
- Experienced management team \*
- Abundant fibre supply



\* Refer to Appendix for Officer Biographies

# Market Leadership

No. 3 in NBSK Globally / Largest NSK Seller

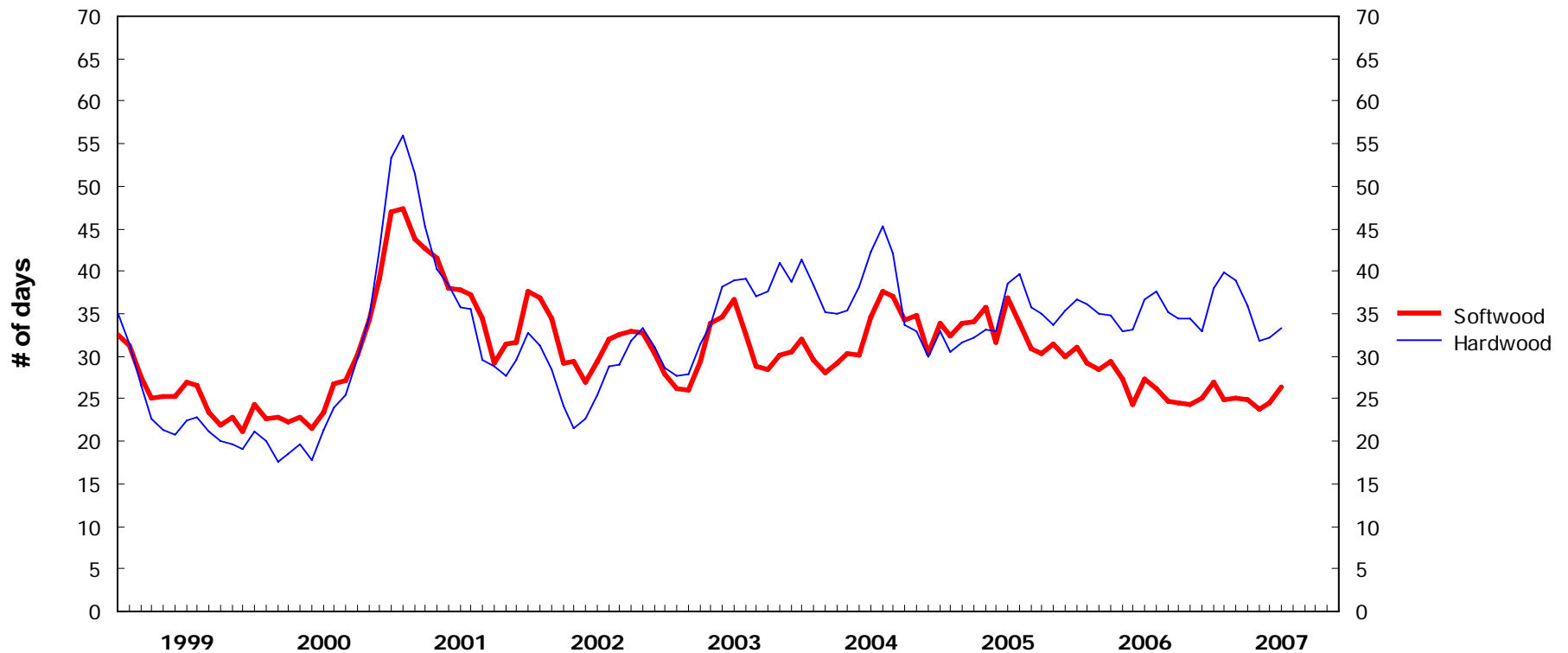


Source: PPC & Management Estimates

# Market Conditions: Low Inventory Levels

Softwood Supplier Inventories Are at 26 Days (near historical low)

### World-19\* Pulp Inventories in Days Bleached Kraft Softwood vs Hardwood



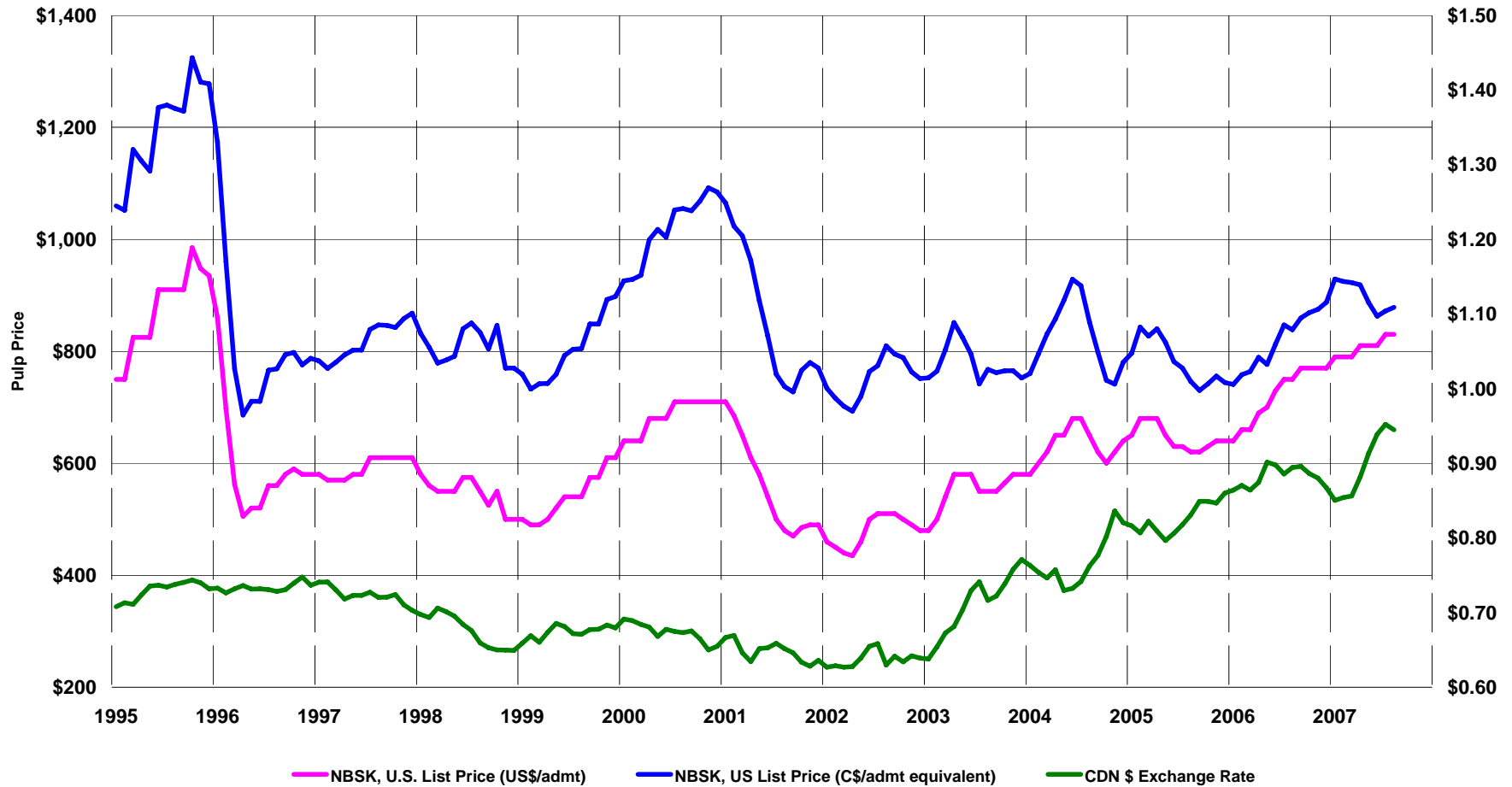
Source: Valois Vision Marketing

\*World 19 account for nearly 90% of Softwood Production (does not include Russia or E. Germany)

# Market Conditions (continued)

NBSK list prices continue to be strong, although mill net realization down

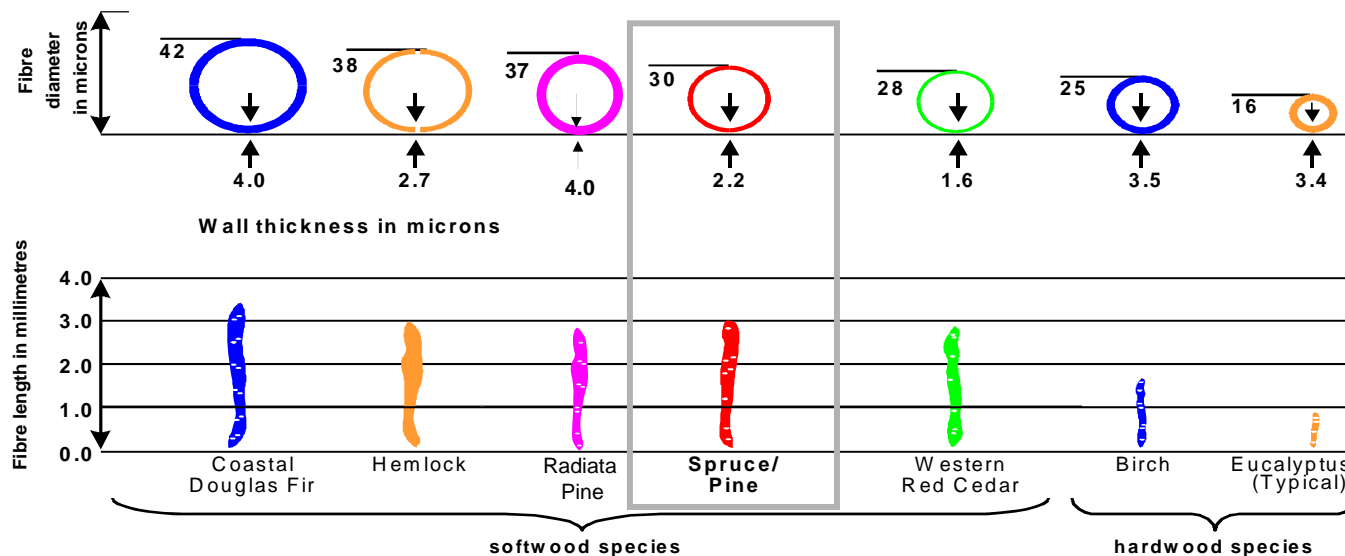
NBSK List Prices in \$US Delivered to North America vs. Foreign Exchange 1995 - Current



# Premium Products : Reinforcing Pulp

- Not all pulps are the same: Northern spruce and pine fibre produced in the central interior of British Columbia is recognized as being the strongest in the world due to the long, slender fibres. Provides for a better printing surface, better softness and better strength.
- This fibre is the best to produce a reinforcing pulp, which in turn commands a premium price.

## Typical Fibre Dimensions

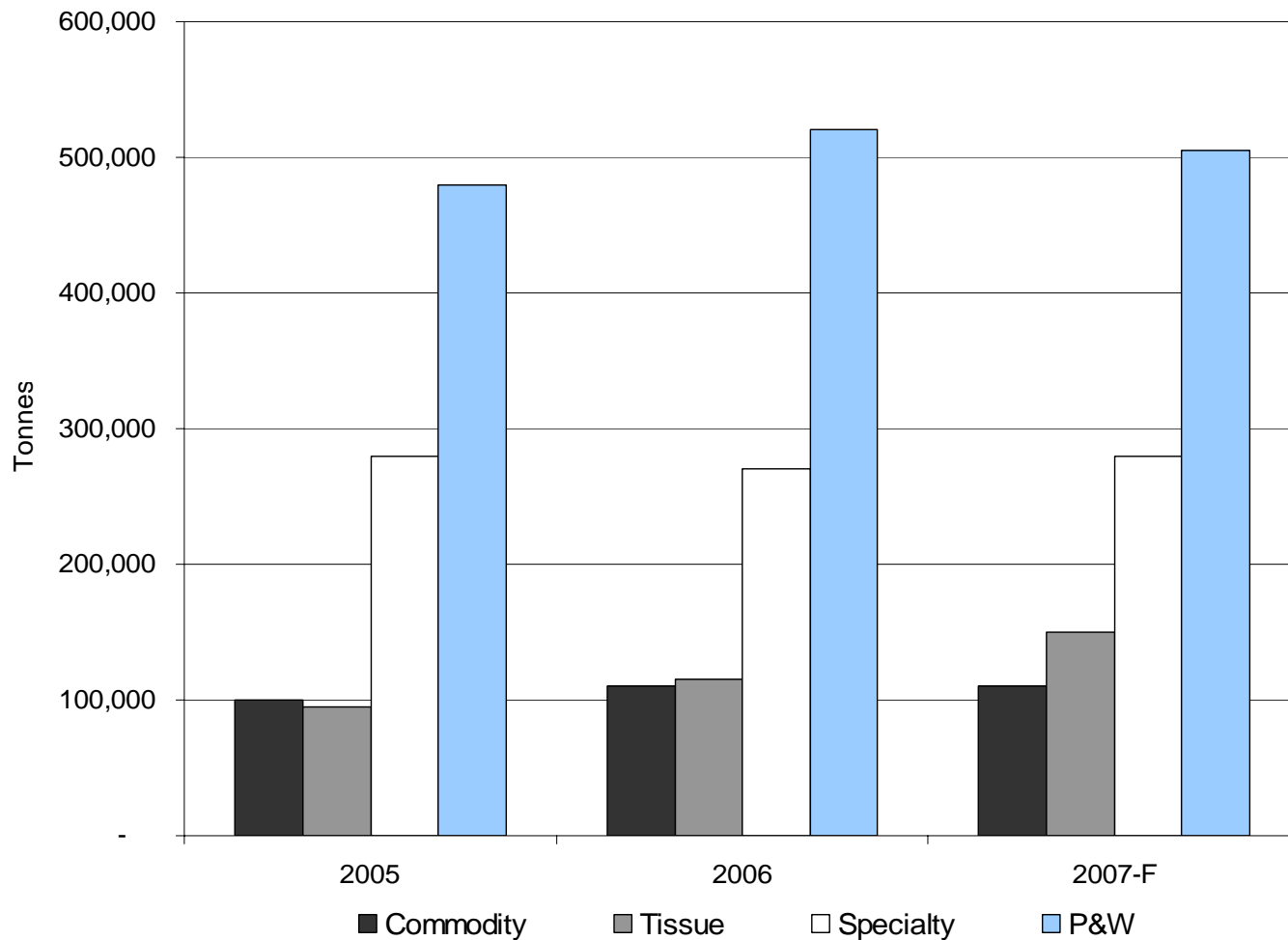


"Weight weighted lengths measured by Kajaani FS200"



# End-Use Mix

## Target Customers That Need Reinforcing Pulp



### Examples include:

#### Printing & Writing

- Magazines
- Catalogues

#### Specialty

- Adhesive labels (beer)
- Masking tape

#### Tissue

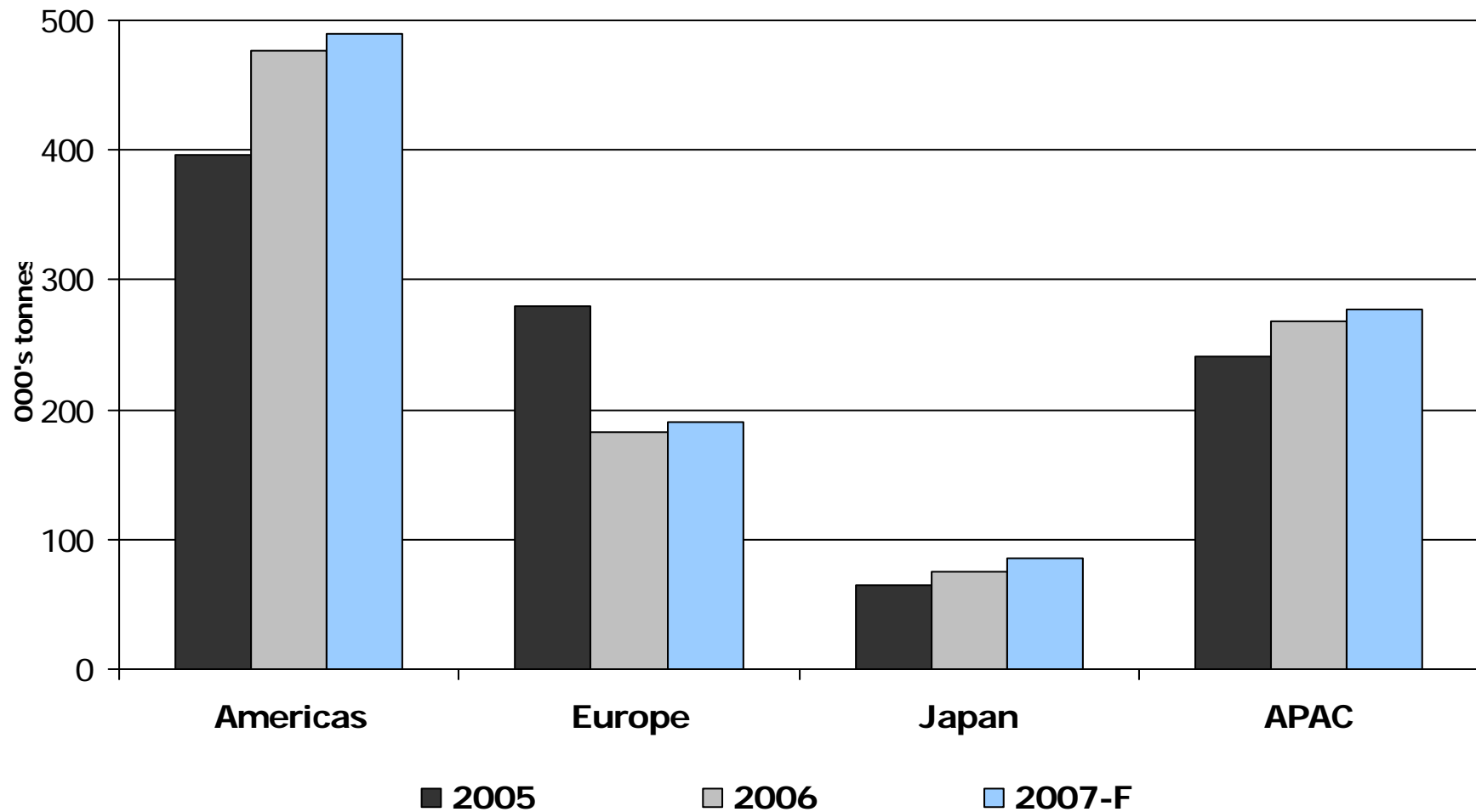
- Branded top quality "Use at-home" tissues

#### Commodity

- Photocopy paper

# Diversified Sales by Region

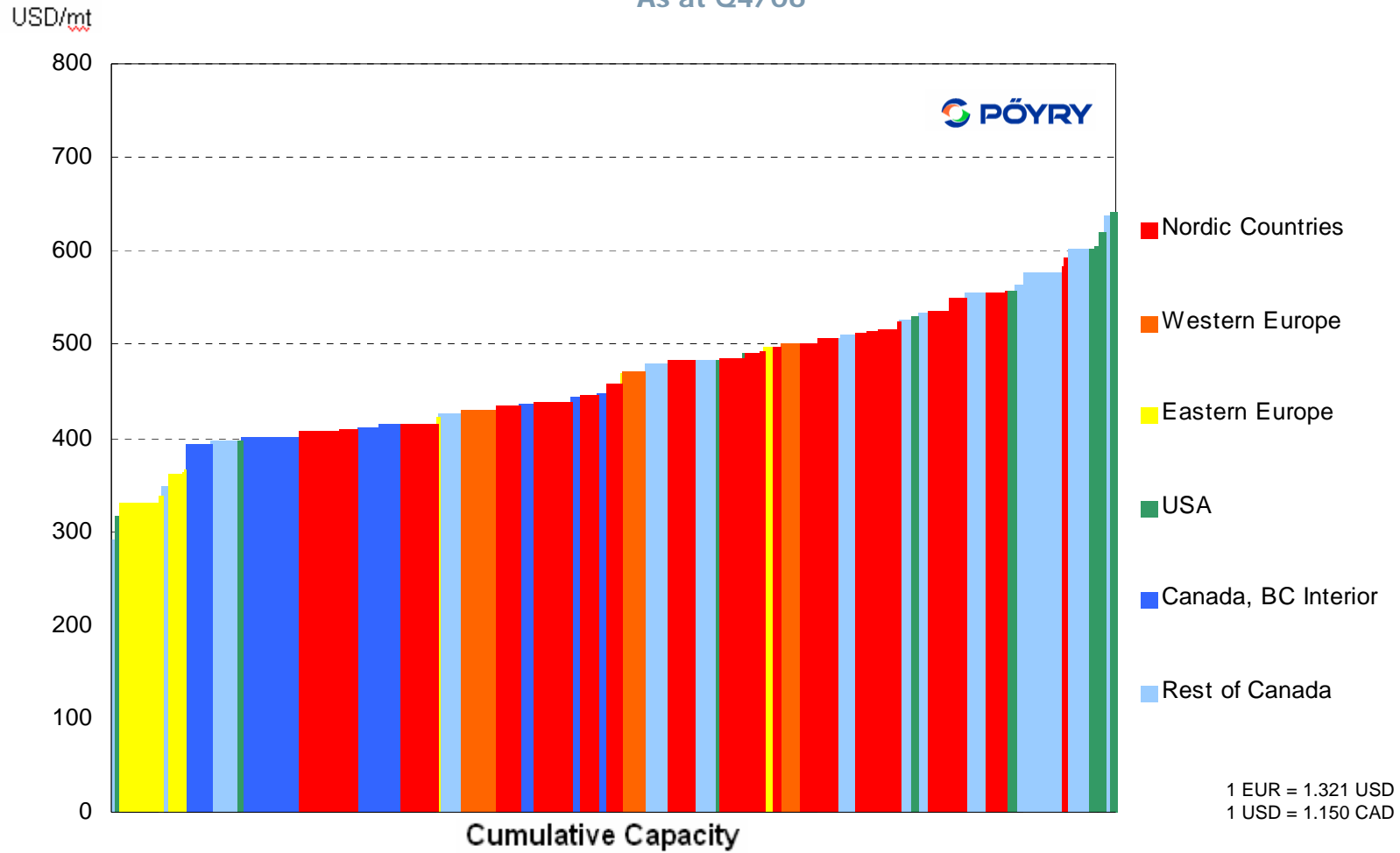
Maintain high mill nets with diversified sales



# Low Cost Producer

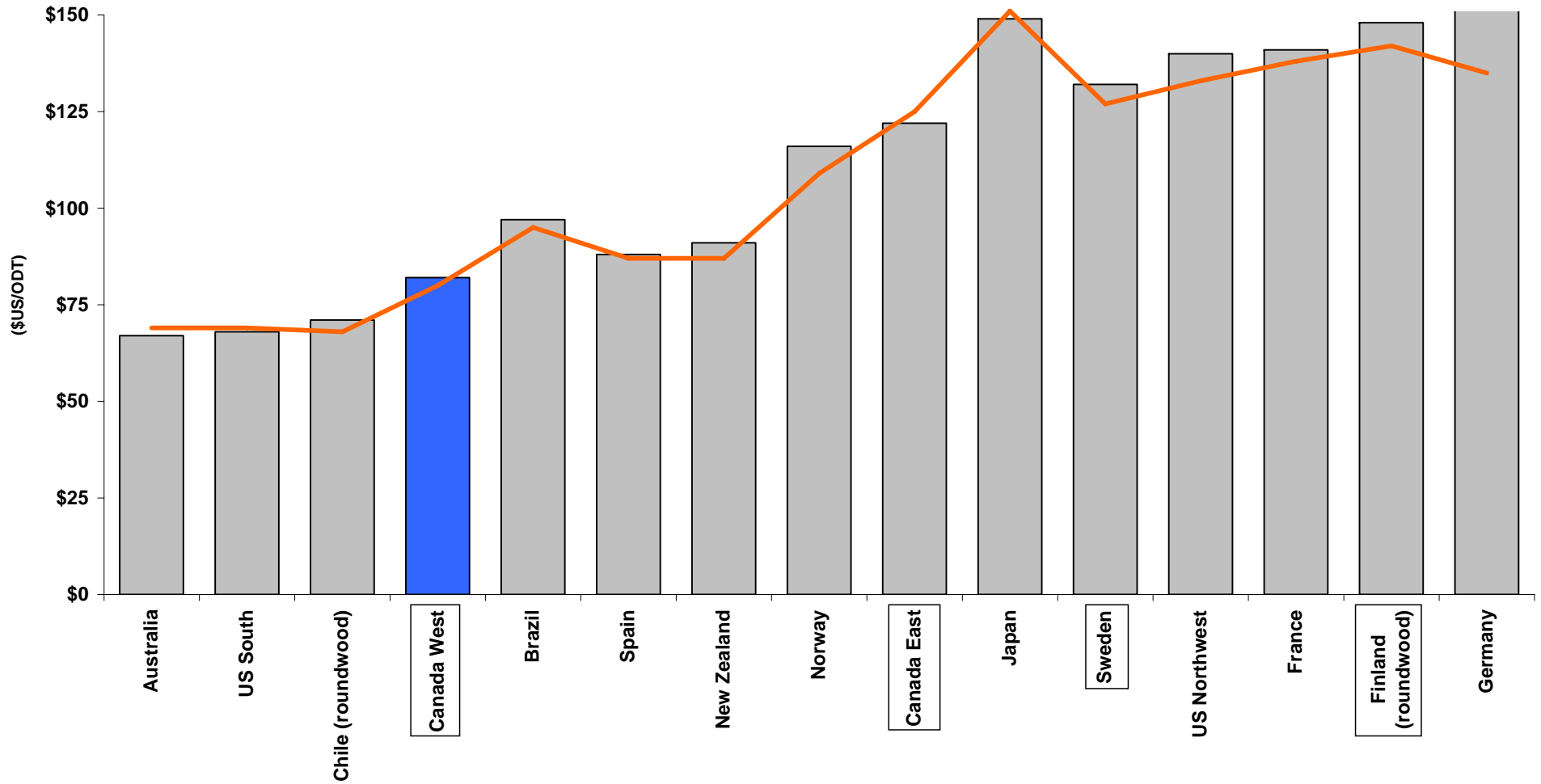
## Northern Bleached Softwood Kraft Manufacturing Costs

As at Q4/06



# Abundant and low cost fibre

Conifer Chips - Delivered Prices Q4 / 06 vs. Q1 / 07



NBSK Producing Region

Q1-07 Q4-06

Resource: Wood Resources



# High Margin Producer

## Top Quartile EBITDA per tonne producer due to:

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

Per PwC 2006 benchmarking study of 13 Canadian NBSK mills, Canfor Pulp's mills were Top Quartile

# Financials

**Strong margins: increasing pulp prices offset against the strengthening dollar and rising fibre costs**

<i>\$ millions unless otherwise noted</i>	6 months ended	6 months ended
	June 2007	Dec 2006
Sales	477.6	443.3
EBITDA	111.8	124.4
- <i>ebitda margin%</i>	23%	28%
Net Income	84.5	86.7
- per unit	\$1.19	\$1.22
US\$ average pulp list price *	\$770	\$720
C\$ average pulp list price *	\$874	\$814
Average Cdn/US exchange rate	\$0.881	\$0.885

\* Per tonne, delivered to Northern Europe

# Balance Sheet

## Maintain a strong balance sheet

<i>\$ millions</i>	As at June 2007
Cash	34.1
Current Assets	315.5
Fixed Assets & Other	596.5
<b>Total</b>	<b>946.1</b>

<i>\$ millions</i>	As at June 2007
Current & Other Liabilities	224.0
Long Term Debt	117.0
Equity	605.1
<b>Total</b>	<b>946.1</b>

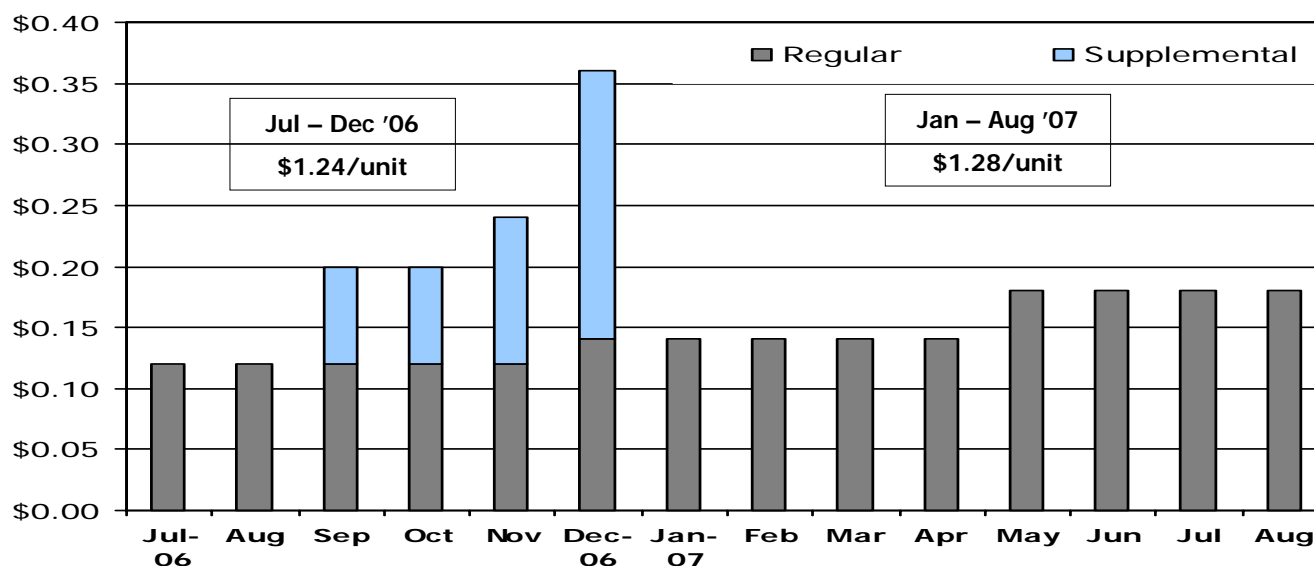
- Net Debt/EBITDA (LTM) = 0.35
- Net Debt/Equity = 0.14
- Yield (as at August 28, 2007 price) = 16%

# Distributable Cash

## Calculation of Distributable Cash

\$ millions unless otherwise noted	6 months ended	6 months ended
	June 2007	Dec 2006
Cash flow from Operations	97.9	99.9
Changes in working capital	6.2	22.8
Less: capital expenditures and others items	(10.4) (3.4)	(11.1) (1.6)
Distributable Cash	90.3	110.0
- per unit	\$1.27	\$1.54

## Distributions announced





# 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

# Challenges and Opportunities

- Continued Strengthening of Canadian Dollar
- Low U.S. Housing Starts
  - Sawmill Residual Chips
- Mountain Pine Beetle
- Growth of Southern Hemisphere Pulps
- New Green Energy Power Generation

# Summary

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



# Canfor Pulp Income Fund



## Questions?

CFX.UN

Contact:

David Jan

David.Jan@Canforpulp.com

604-312-9457

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



# Canfor Pulp Income Fund



## Appendix

- Management Bio's
- Business Overview
- Industry dynamics

# Officer Biographies



## Paul Richards – President & CEO

- Over 35 years in the pulp & paper business
- Worked at Weldwood, Repap, MacMillan Bloedel
- Chemical Engineer



## Tom Sitar – CFO

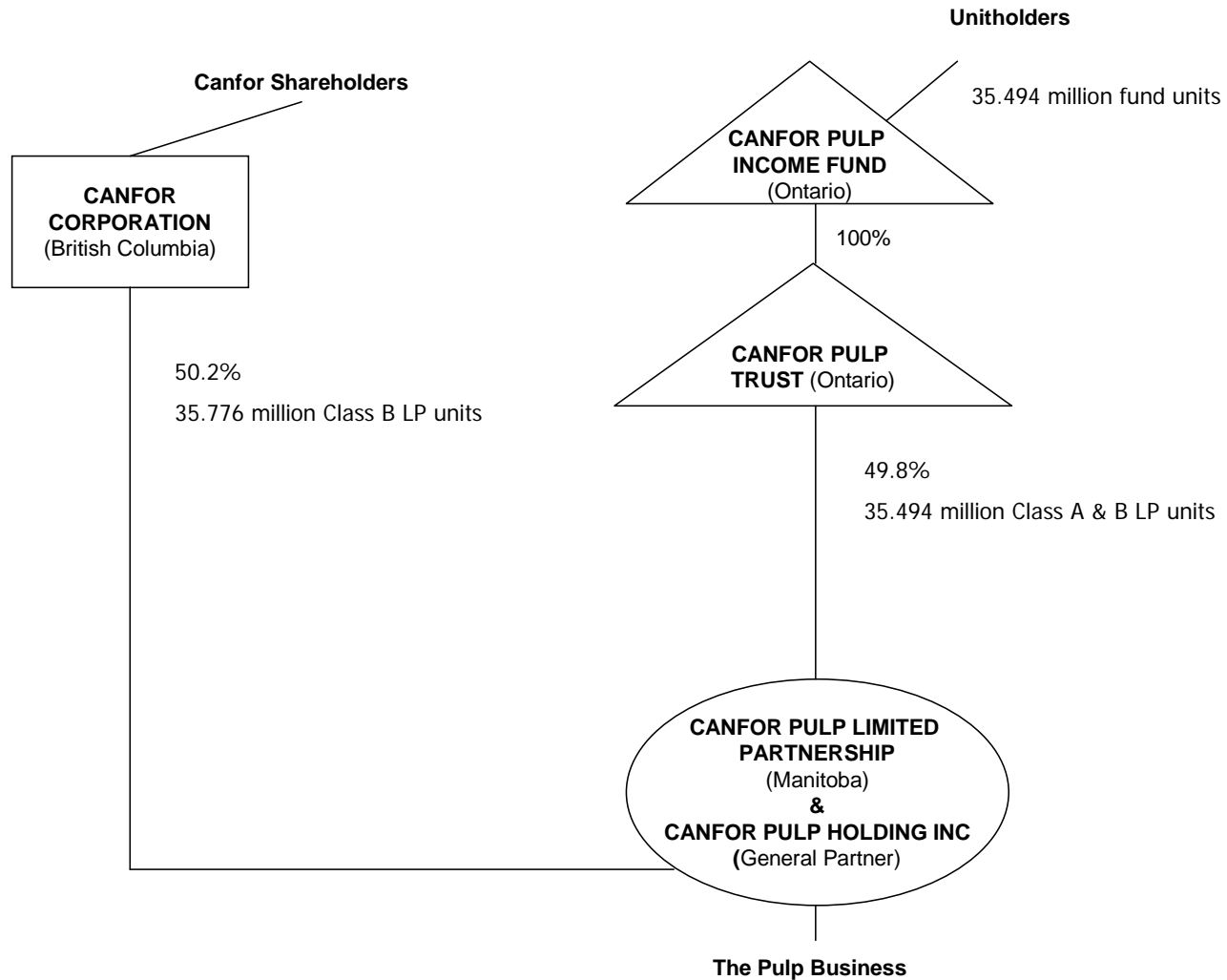
- Over 25 years of public company financial management
- Forestry experience at Weldwood as VP Finance and Treasurer
- Chartered Accountant



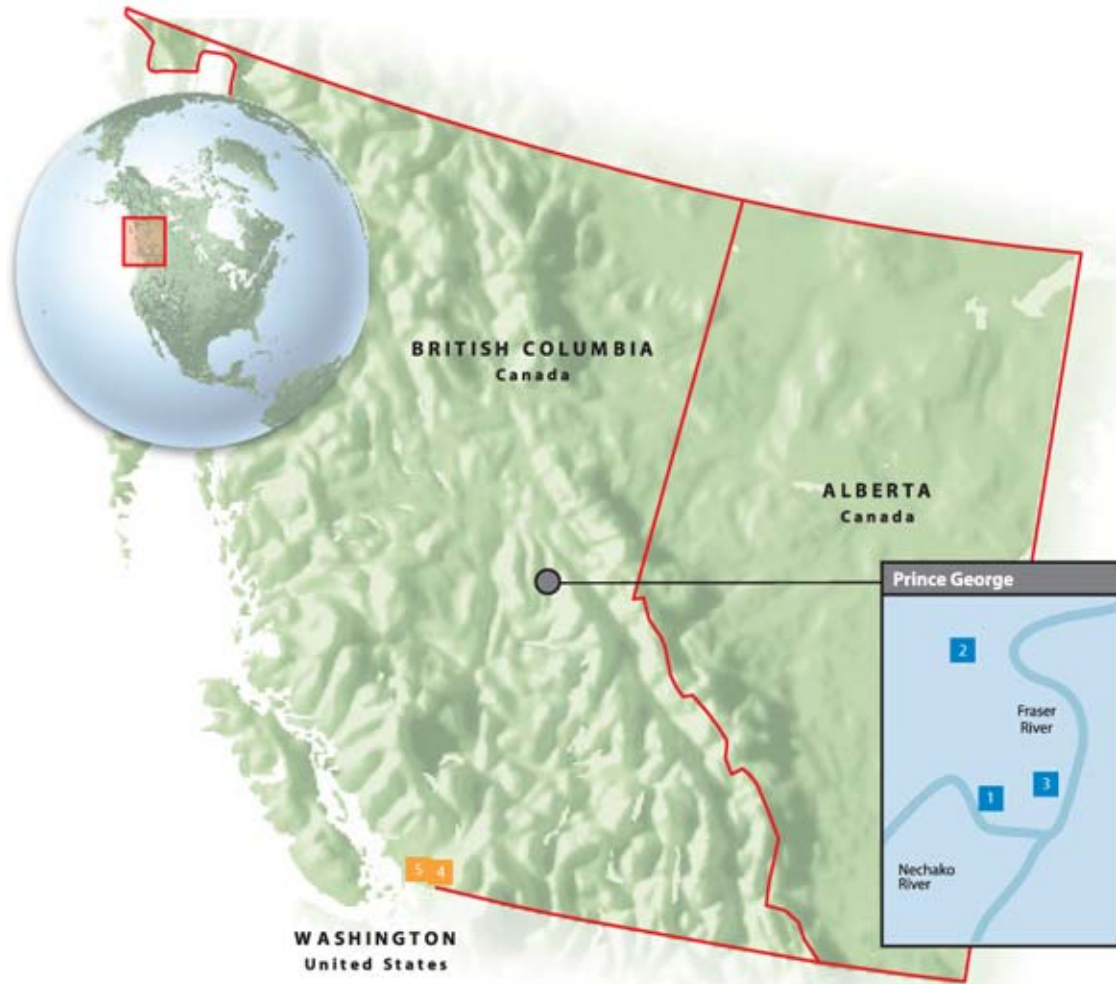
## Joe Nemeth – Vice-President, Sales and Marketing

- Over 20 years of forestry experience, woodlands, lumber, plywood and pulp & paper (manufacturing and marketing)
- MBA and Bachelor of Forestry

# Simplified Ownership Structure



# Our Operations



## Canfor Pulp Limited Partnership

### 3 mills in the BC Interior:

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

#### MILL/LOCATION

- |   |   |
|---|---|
| 1 | Intercontinental                                      |
| 2 | Northwood   |
| 3 | Prince George Pulp & Paper                            |
| 3 | Prince George Pulp & Paper                            |
| 4 | Vancouver   |
| 5 | Canfor Pulp Research & Development Centre - Vancouver |

#### KEY PRODUCTS

- |             |
|-------------|
| NBSK Pulp   |
| NBSK Pulp   |
| NSK Pulp    |
| Kraft Paper |
| Head Office |

- Pulp & Paper
- Other



# The Operations – 3 Mills in Prince George

- **Northwood**
- **Intercon**
- **Prince George Pulp & Paper**

	Northwood	Intercontinental	PG&P	
History	1966	1968	1966	
No. of employees	500	300	400	
Capacity (ADMT*)	570,000	310,000	153,000 (pulp)	135,000 (paper)
Operations	2-line	1-line	1-line	1-line
Markets	North America, Europe & Asia			North America & Europe
Products	Bleached NBSK		Semi-bleached and Unbleached	Bleached and Unbleached
Fibre consumed (Odt's)	2.5 million			
Certification	ISO 9001 and ISO 14001			



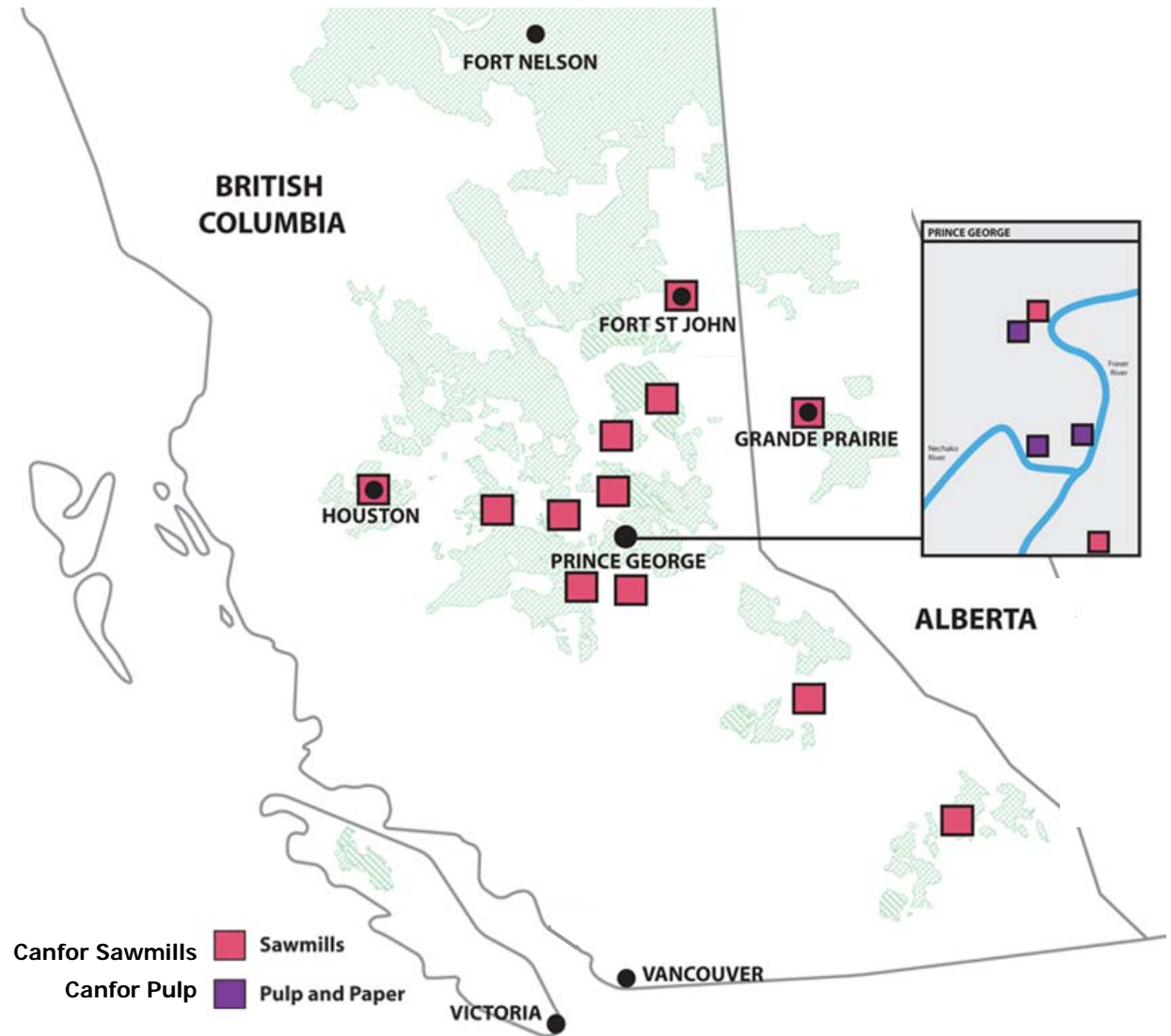
\*air-dried metric tonnes; tonne = metric ton = 2240 lbs

# Secure Fibre Supply

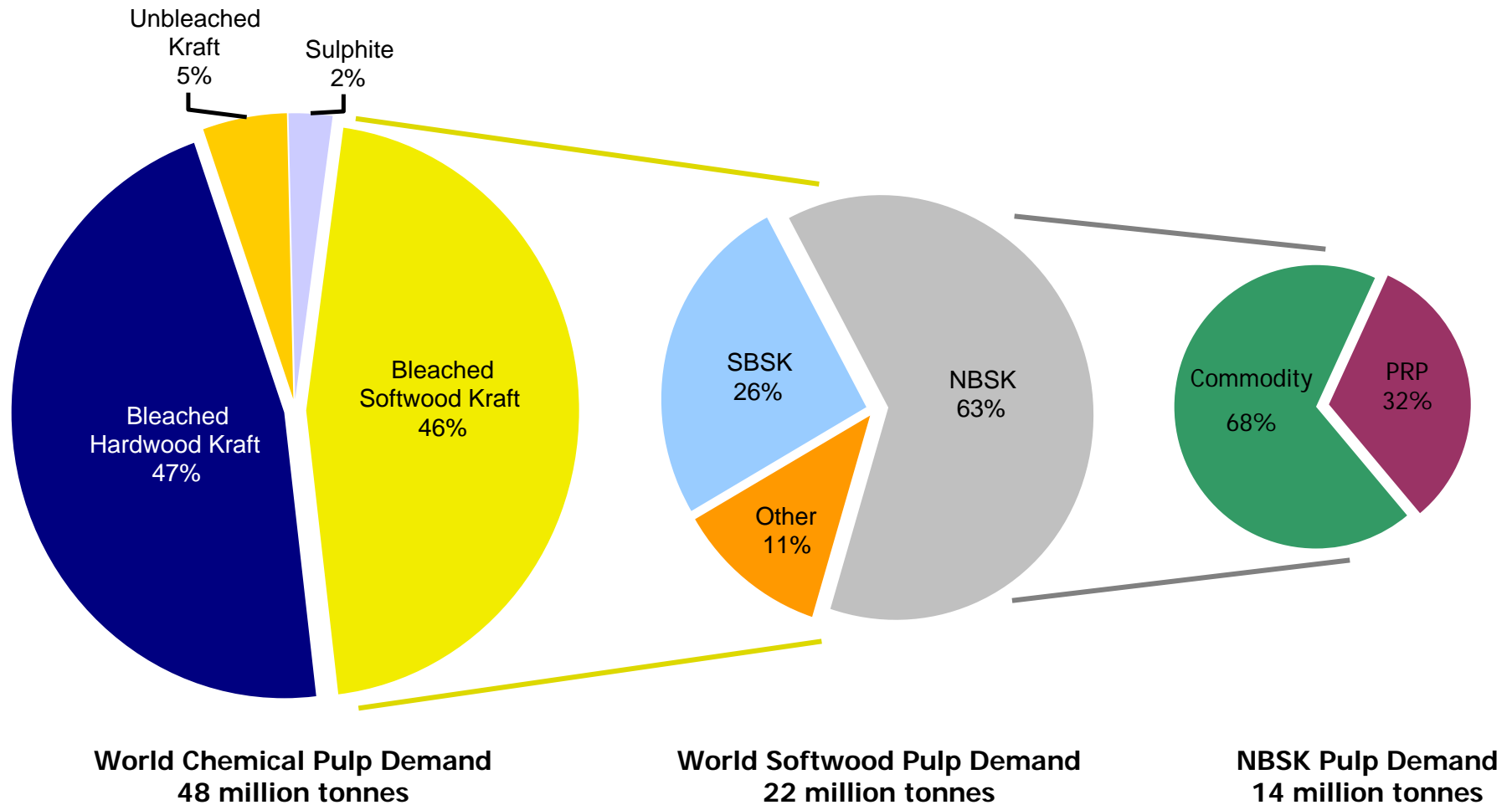
## Fibre Supply Agreement with Canfor

- 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 mi cubic meters of allowable annual cut (AAC) in Columbia and Alberta and produce total of 2.2 tonnes of chips in BC.

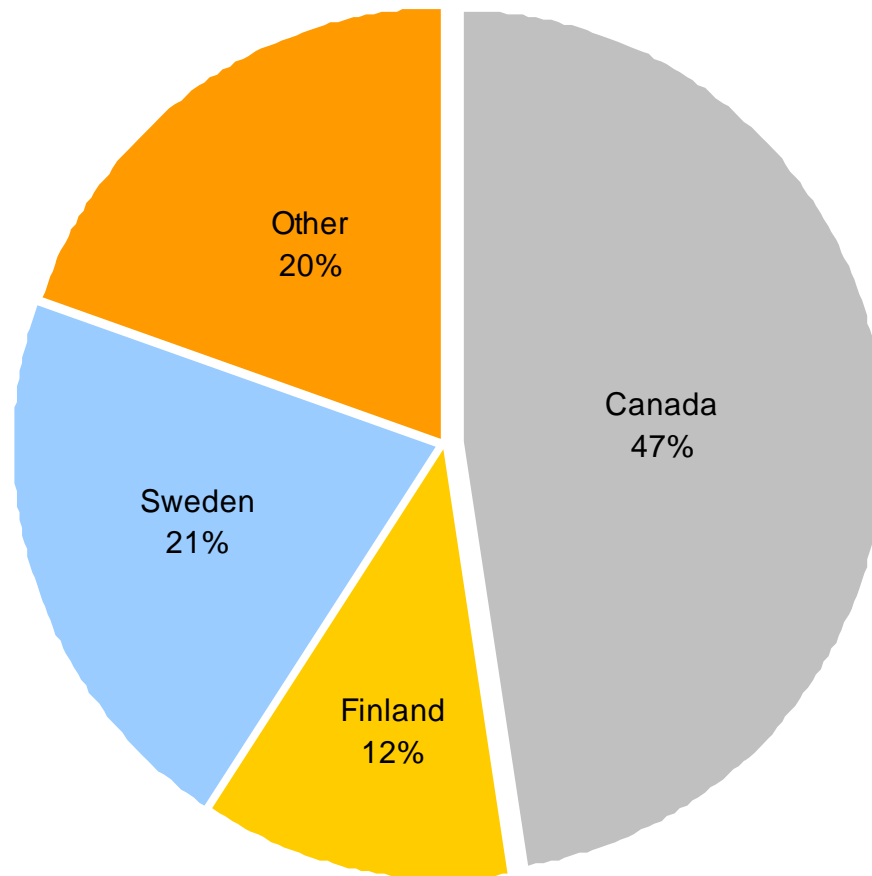


# Global Chemical Market Pulp Demand



Source: Pulp & Paper Products Council (2006)

# Global NBSK Supply by Region (2006)



Source: Pulp & Paper Products Council



## Financials - Sensitivities

- Available on [www.canforpulp.com](http://www.canforpulp.com) and [www.sedar.com](http://www.sedar.com) are:
  - Annual Information Form
  - Annual MD&A and Audited financial statements
  - Quarterly MD&A and financial statements
- Sensitivities

(millions of dollars, unaudited)	Impact on annual EBITDA
Cdn dollar – US \$0.01 change per Cdn dollar	\$8
NBSK pulp price – US \$10 change per tonne	\$10
Fibre cost - \$10 change	\$25
Natural gas cost - \$1 change per gigajoule	\$4