

CORPORATE PARTICIPANTS

Jim Shepherd

President and Chief Executive Officer of Canfor.

CONFERENCE CALL PARTICIPANTS

John Anderson

Frederic Beausoleil

Stephen Atkinson

Paul Quinn

Benoit Lapard

Darryl Swetlishoff

Pierre Lacroix

John Stewart

Gordon Hoekstra

Allan Dowd

Ben Meisner

PRESENTATION

Operator

Good morning ladies and gentlemen. Welcome to the Canfor Corporation conference call to discuss fourth quarter earnings and the (inaudible) announcement. Please be advised that this call is being recorded and web cast live on www.canfor.com. A recording of the call and a transcript will be available on Canfor's website. Also, the company would like to point out that this call will include forward looking statements, so please refer to the press release for the associated risk of such statements. And with that, I would like to turn the call over to Mr. Jim Shepherd, President and Chief Executive Office of Canfor. Please go ahead, Mr. Shepherd.

Jim Shepherd, President and Chief Executive Officer of Canfor

Thank you very much, Operator, and good morning to all. Joining me this morning on the call is Scott Wilson, our

Vice-President Finance and Chief Financial Office, David Callabrego (phonetic), our Vice-President Corporate Development, Paul Richards, our Vice-President Pulp and Paper, and Kevin Clayton, our Corporate Comptroller.

I would like to briefly go through some commentary as well with Scott Wilson the fourth quarter results, and then maybe go into some commentary on the creation of our Pulpco income trust, and then open up for questions and dialogue after that point.

First, I would like to start with the quarter results that we announced yesterday, which resulted in a net income loss of slightly over 12 million dollars, or nine cents a share. A disappointing number for us in Canfor, certainly in the business environment that we are still dealing with the very strong Canadian dollar currency. Markets were relatively stable in terms of product pricing in Q3 over Q4, but we were able to sell all the products, shipments were good, and it was just the value of the dollar and the market pricing of the products that impacted the net income for the company.

We also have the very large challenges of (inaudible) lumber, and other issues around the forest industry that is dealt with here in Canada. But more specifically, inside Canfor, we had a number of operating issues that really impacted our performance, and just to go down some of the highlights, I think it's relevant in terms of how we in fact were able to show the numbers.

First and foremost, one of the larger and the lowest cost facilities in our family of (inaudible), the plateau mill, was going through the heart of its major capital rebuild, so much of this facility was basically shut down and going through the insulation of the equipment, and starting up piece by piece throughout the fourth quarter, and so this had a negative impact on the overall lumber performance for the company, where typically plateau shows a very positive influence certainly in its manufacturing costs, and this project is going extremely well, and as we've now started into the year 2006, we see very, very positive signs of being a very, very good (inaudible) mill for us going forward into the future.

A big disappointment was our OSB performance, our two facilities now, both up in Fort Nelson, the (inaudible) plant, and the joint venture in Fort St. John. Our (inaudible) mill up in Fort Nelson had to shut down for a complete re-bricking of the refractory and our heating units. That took 11 days to do this. This was not expected, and it had to be done in order to maintain the integrity of the process, and so it hit us very hard in terms of our numbers for the quarter, and now that that work is

done, the mill is ramping up to higher capacity following the capital that we put in earlier in the year, but we weren't able to enjoy some of the good market pricing in OSB that others enjoyed during the fourth quarter.

The joint venture in Fort St. John is now up and running. It's going through a start-up. We're working very closely with our partner, Louisiana Pacific, to get the initial bugs out. This is a big mill, a lot of new people and new faces in the plant, and so it's going through a start-up right now. All signs are this is going to be one of the best mills in the industry, and we will have to just see this day by day, see the ramp up as we expect, and our hope is that going forward into the year, 2006, that a very significant contribution to cash into Canfor will be realized by this facility. But we had expected more income from the joint venture in the fourth quarter because of the initial start-up, and construction issues and certainly the very busy time around the northeast of the province that delayed start-up into the very latter part of the fourth quarter.

Also, a couple of other mills in the lumber divisions, McKenzie, the (inaudible) mill, Radium, the (inaudible) mill, capital that was spent did not get finished in time to enjoy any benefit in the fourth quarter. In fact, these mills did suffer because of the installations and the start-up crews that they're going through, and the modifications that will hopefully bring a good return in the invested capital that we put into those mills. And all that combined impacted on our operating earnings, and unfortunately the result is what it is.

We also had some down time in the pulp divisions of Canfor, both (inaudible) and PG Pulp took down time, four days in one, seven days in the other, and necessary to do, but again, it did impact slightly on the performance of our pulp and paper divisions of Canfor, and all included, we ended up with the nine cent loss for the quarter.

There are other one time items, and I'm going to hand the call over to Scott Wilson, he can go through more detail in the numbers, and we'll come back and just get some comments as we go forward into the year 2006.

Scott?

Scott Wilson

Okay, thank you, Jim. I'll talk a little bit more about the fourth quarter and some key stats and measures for 2006.

Generally, within the 12.3 million loss for the quarter were several one time items that net too close to zero, such that adjusted earnings per share and reported earnings per share are negative nine cents. These items included a loss of two and a half million within our coastal operations, which is now discontinued and no longer an operating segment of Canfor. Sales of coastal log inventory will continue into 2006.

The translation of our US dollar debt at the year end exchange rate produced a 3.9 million dollar loss, versus the September 30th exchange rate. We repaid ten million dollars US of debt in the fourth quarter, and that was not reborrowed. Our net debt to capitalization remains at about 14%. There was also an accrual for long term compensation made in the fourth quarter, of which 4.6 million after tax is not applicable to that period.

So the one time items unfavorable to earnings in the quarter totaled 11 million. The favorable items in the quarter included an 8.9 million dollar distribution from our equity investment in Seaboard (phonetic), relating to an asset sale within Seaboard. And a 2.7 million after tax adjustment to the timber license write-down that we took in the third quarter. With respect to duties, we paid US 34 million in the quarter, bringing Canfor's total deposits to US 733 million.

So now looking at the segments, and starting with lumber, we had a difficult quarter, as Jim noted, with only seven and a half million of EBITDA. The reasons for the decline are noted in the press release, and include a lower US dollar lumber price, a stronger Canadian dollar, and lower production, off set somewhat by lower log costs. The 76 million board (inaudible) production decline is primarily due to the plateau mill rebuild, however smaller seasonal production declines took place in several of the other mills. Cash conversion costs on a unit basis were higher by approximately 7% over Q3 due to the lower production.

As we enter 2006, log costs are expected to increase by approximately two dollars a cubic meter, due to higher fuel costs and BC governments (inaudible) changes to come into effect on April 1st. Our mills in the Prince George area, with the highest component of beetle killed wood will see the largest increase mitigated by reductions elsewhere. The provincial government's timber pricing regime has not been finalized, so we have some uncertainty around this.

Lumber inventory was unchanged, quarter over quarter, but log inventories are up as anticipated. We've had some weather challenges, however it has been colder of late, and winter accumulation will continue.

Turning to panels, the Q4 performance was dominated by operational challenges at polar board OSB plant, which lost 11 days of production due to unplanned downtime, as Jim noted earlier. The production issues at polar board are being corrected, and we expect over 600 million square feet of production there in 2006.

The (inaudible) joint venture has commenced production and Canfor now includes its 50% proportional share in its financial statements. For the fourth quarter, Canfor recorded an 800,000 dollar operating loss from Peace Valley. On the plywood side, we had good production quarter, with a 110 million square feet. Despite higher market prices for plywood and favorable log costs, we had lower shipments relative to Q3 as that quarter shipments were positively impacted by hurricane effects.

Turning to pulp and paper, the benefits of lower fiber and energy costs assisted the segment record 29 million of EBITDA in Quarter 4.

Production was up slightly to 305,000 metric tons, and Canadian dollar mill nets were just slightly down. As noted on last quarter's call, the benefit of the Prince George pulp mill turbo generators won't be fully realized until the first quarter, as the precipitator was completed in December. The generator has been producing power just below its capacity rate of high 40 megawatts per year. There are no maintenance shut downs planned for pulp in the first quarter of 2006.

Now, briefly on the corporate segment, costs ran a little higher in Quarter 4 due to the compensation accrual that I mentioned earlier. Adjusting for this item, we expect corporate costs in 2006 to be in line with previous quarters.

Just a comment on capital, we invested over 335 million in our mills in 2005. This included the plateau expansion, the Peace Valley-OSB joint venture, polar board expansion, the PG Co. generator, McKenzie planer, and several other improvement and maintenance costs. In 2006, we'll continue to invest in our mills with a combination of technology upgrades, and energy projects of two or three mills, as well as other improvements. In light of the recently announced (inaudible) acquisition of US 205 million, and the on-going completion of the significant capital spent undertaken in 2005, as Jim was talking about, we're planning to scale back the capital in 2006 at this stage just slightly from where we were earlier projecting it to be. But we'll review this as the year progresses.

As noted in the last quarter, we'll remain very prudent with respect to the timing and scope of capital investments, and we'll continue to take advantage of all the non-capital opportunities to improve our operations.

So, finally, in the last quarter we talked a little bit about providing some guidance with respect to any shuts or changes in our productive capacity going forward, and what we intend to do in this regard is to advise you if there's going to be any material change to where we see our productive capacity. So for 2006, we expect that our annual lumber production from primary mills to be about 4.7 billion board feet, pulp to be close to 1.2 million tons per year, plywood at 450 million square feet per year, and OSB at 950 million square feet. Now having said that, there is a ramp up curve to Peace Valley, and we're estimating the mill to be about 70% of the stated 820 million square feet of capacity during Q1, and as well, the plateau mill will be approximately 70% of its stated 620 million board feet of capacity in Q1. And then just finally, again, there is no planned maintenance in the pulp mills in the first quarter.

Jim, back to you.

Jim Shepherd, President and Chief Executive Officer of Canfor

Thanks, Scott.

A very busy year, 2005, for all of us at Canfor, and the focus right now is to get these mills to the pro forma expectations and to deliver on the money that's been put in them, and so an awful lot of effort in Canfor is not only going into those mills, but all facilities to improve performance and productivity, cost structures, and so forth, and it's a never-ending issue for us, but clearly for us, we have an awful lot of changes in the company, and we just want to make sure that all these changes in fact are well-implemented and delivering on the goods expected.

So the capital going forward, as Scott mentioned, we will review these very carefully going forward, I think it's safe to say we will tone down the amount of money that we're spending, each and every project as always will be judged very judiciously, but we will want to get to the existing projects up and running before we go on the next phase.

Having said that, we did approve a project yesterday, it's a bark boiler at our Houston mill. We have tier one burner there as well as some very old ship boilers that

have been burning fiber for the kill and drying process, so we'll be installing a brand new boiler that will burn all the bark and replace all natural gas for wood drying at Houston, and that will allow us to have excess white wood (inaudible) so that will go into a new pelletizing plant that will be built at the side of the Houston site, and we will be getting into the palette business for field sources in Europe, and specifically in Japan. We will be working with a partner called Pinnacle Palette, who is a very well-recognized manufacturer of palettes in the province, and the total dollars for this project is 45 million, with expectations that everything that will be completed at some time in the first quarter of the year 2007.

As we see markets going forward, pulp is certainly showing some strength. The Canadian dollar seems to be (inaudible), price increases are continually being pushed upwards, but we do see a positive on the pulp side as we enter the year 2006, and we have a good start to the year 2006 in terms of lumber and panel pricing. Its drifted off somewhat recently, but we are just entering into the spring buy, and hopefully this will allow for improved market conditions going forward into the quarter and beyond.

I also am very hopeful that the new government in Ottawa under the prime minister Stephen Harper can help lead to some solution on (inaudible) lumber, which is one of those nagging things that just never goes away, and has a huge impact financially to a company like Canfor.

Priorities for us, in the first quarter will include finalizing the coastal transaction announced late last year with the (inaudible) division and the (inaudible) restructuring. We're still waiting for approval of the competition bureau in Ottawa, and we just want to get on with that, finish it and focus on running a very good facility on (inaudible).

Also, we have expectations of integration on (inaudible). The number of mills in North and South Carolina, in the Canfor family, look very forward to that, and working with a broader manufacturing base than we seemed to start with in Canfor, and of course a lot of effort will go into the implementation of our Pulpco income trust on that strategy, and have it completed by the end of the second quarter.

So with that, I would like to go into a brief dialogue on the pulp income trust. Just to give a brief commentary on the rationale, and have Scott give you some indication of the numbers of what we announced yesterday, the creation of a pulp income trust, and it incorporates the tree NBSK mills up in Prince George, so it's very much focused on one product line of pulp, a very high quality NBSK, and

with that will be the paper mill at PG Pulp. It will be spun out in terms of the income trust, and 80% of the units will be held by Canfor, and the remaining 20% of the units will be spun out to the shareholders of the company.

The reason for doing this is to further our path of our strategy announced over a year ago, which was to concentrate on the wooden building materials business of lumber, panels and engineered wood for markets around the world. We want as the company Canfor to be very focused on that, and not only operate an excellent business in terms of all of our assets, but grow in the market that we feel has opportunity in many regions of the world, and it will dedicate all our effort to that particular business and that particular market segment going forward.

The pulp business in (inaudible) is very important to Canfor, certainly with (inaudible) wood going into the mills, and we want to make sure that that particular business is properly operated and clearly focused on being the best it can be. And so, separating the two, we feel it's a strategic advantage for both businesses and we'll provide benefit to the shareholders of the company.

The creation of the income trust has a number of financial benefits as well. It's a tax effective return on capital, and it provides an ownership structure for pulp that is valued by income oriented investors. And certainly for us, that's been a message we've been hearing loud and clear in Canfor for some time, and of course going forward, a distribution from the pulp income trust will be provided. The fundamentals of this business I think are the right timing, the mills are in very good shape, they're extremely well-operated. We have now completed the major capital that was implemented a number of years ago, the turbo generators now up and running, we've completed the precipitator project, it came in early, and two to three million dollars under budget, and now PG Pulp is up to full capacity, and with the surplus of chips in the northern Ontario part of the province of BC, we have very competitive fiber going into the manufacturer of pulp. So we think all the fundamentals and dynamics of the manufacturing base are in place, and with that, I hope the markets will respond and significant cash generation will be realized by a very highly focused group of individuals running the business of income pulp trust.

So with that, I'd like to go back to Scott and a little more detail on some of the numbers.

Scott Wilson

Okay, Jim.

Just a couple of things before we just review what was in the release yesterday in terms of numbers. As Jim noted, the income trust structure is one that we feel has been chosen to distribute the majority of the cash to its owner, and that will be valued by those who seek income.

And you should know that we did carefully consider the spin to shareholders, or an IPO as the appropriate way to launch the trust, and that involved considering a balance between Canfor's cash position, and currently, and going forward as well as shareholder value objectives, and we believe that the distribution to shareholders does maximize the shareholder value equation.

Now, looking at the numbers that are in the release, and using our 2005 EBITDA that we've just reported, the segment at EBITDA for pulp and paper is about 66 million, however that includes certain items that aren't being transferred to the trust, so that it's about 60-61 million of EBITDA appropriate for the trust asset.

When we layer in the benefits of the co-generation project that we feel would have been about 20 to 25 million dollars on that, as well as the lower fiber costs of about 50 million dollars, but take away normalized maintenance, which is in the range of 25 to 30 million, and interest charges on debt that we're anticipating to be about 125 to 150 million of debt, leaves you with distributable cash, somewhere in the range of 90 to 95 million after considering a payout ratio in the range of 85-90%.

So those are the numbers that we see at this stage. There will be more disclosure in the information circular, which will come out in due course. The final comment I'd have, Jim, is we do anticipate transactions with Pulp Trust and Canfor will be done at arm's length and at market rates.

Jim Shepherd, President and Chief Executive Officer of Canfor

Well, thank you, Scott.

An awful lot of information given over the last 15-20 minutes, and so what I'd like to do is hand it back to the operator, and Operator, if you can coordinate questions, and we'll try to give more detail on specifics that listeners may have.

QUESTION-AND-ANSWER SESSION

Operator

Thank you, Mr. Shepherd.

We will now take questions from analysts and investors first. If you have a question, please press *1 on your telephone keypad. If you're using a speakerphone, please lift the handset and then press *1. If at any time you wish to cancel your question, please press the # sign. Please press *1 at this time if you have a question. There will be a brief pause while the participants register for questions. Thank you for your patience.

Our first question is from John Anderson from Jennings Capital. Please go ahead.

John Anderson

Yes, good morning. I have two questions, both on the lumber situation, on the lumber (inaudible), I should say, in lumber operations.

You mentioned the (inaudible) mill was down for quite a portion of the fourth quarter. I just wonder if you could quantify what that cost in lost operating income? Because that is one of your lowest cost mills, I believe?

Jim Shepherd, President and Chief Executive Officer of Canfor

It traditionally has been one of the very lowest cost mills. In terms of the overall impact, (inaudible) were taken out. It's a number that I don't have at the top of my fingertips here. It's something we can get back to you, John, just to make sure that we get the accurate number?

John Anderson

Yes, that would be fine. Thank you. And then my second question, just for guidance going forward, on what your estimated combined duty amount will be going forward per quarter in 2006?

Jim Shepherd, President and Chief Executive Officer of Canfor

Well, we've been operating under the... you know, the new CBD rate, which is I think a little over 8%, and then Canfor is slightly under 2%, so I would say a little over 10% when you add the two together, so that's when the combined duty rates that we've been using certainly going into the year 2006 is subject to change as we go forward with all these various cases and reviews and so forth.

John Anderson

And the duty paid, it's in your notes here somewhere, in the fourth quarter, what was that in dollars?

Scott Wilson

About 34 million dollars.

Jim Shepherd, President and Chief Executive Officer of Canfor

34 million US.

John Anderson

Okay. And that was based on the higher rate, so we're basically looking at a drop to 17 million per quarter?

Scott Wilson

Yes, that sounds about right.

John Anderson

Okay. That's great, that's helpful. Thank you very much.

Operator

Thank you. The following question is from Frederic Beausoleil from National Bank Financial. Please go ahead.

Frederic Beausoleil

Yes, good morning. Two questions for you, one on the financial side, is there any chance you could quantify how much the increase in natural gas costs in the fourth quarter impacted your results, generally for the company. I know you mentioned it as a factor in the panel segment. And second question would be on the trade dispute. Obviously we've heard all the rumblings recently of a pending deal that supposedly would have been found, and my question would be how, as a company, does Canfor view a two-prong mechanism where western costs would actually go up and there would be a quota in the east, and I'm not asking you whether that's a deal that's on the table today, but just philosophically, where you would stand with regard to this?

Jim Shepherd, President and Chief Executive Officer of Canfor

On the first question, natural gas prices, we do a certain amount of hedging in the company, so overall we had a much higher cost for natural gas going forward here.

Scott Wilson

I think the impact would have been in the range of a couple of million dollars, Frederic.

Frederic Beausoleil

Okay.

Jim Shepherd, President and Chief Executive Officer of Canfor

Just on that note, our longer term intent is to eliminate as much natural gas usage throughout Canfor as possible. That started at Houston, we will continue to do at other mills as appropriate timing going forward. We do want to eliminate (inaudible) fuel consumption in our lumber manufacturing business over the next two to three years.

In terms of softwood lumber, I'm glad you used the term "philosophically", because there is all sorts of views out there. From my perspective, I don't want to see softwood lumber used to fixed uncompetitive environments, whether it be in Canadian regions or in the US. I think it would be wrong to have a solution at the Canadian-US border that advantages one region of the country over another. If you take our company in particular, in Canfor, we're investing an awful lot of capital into new technology, better efficiency, lower cost, and I hate to see that given away with some sort of border measure. So for me, every company has to do what it has to do to remain competitive, and do its own sort of business, but at the end of the day, softwood lumber should not skew that. So philosophically, I'm very much against skewing east to west, or even in the province of BC of advantaging one over the other based on what the intent of softwood lumber is. So I know there was discussions late last year, I don't know how far it went. For me, it was obvious that there was a number of problems with that particular dialogue, and I would not support disadvantaging BC, or disadvantaging central BC on the basis of skewing on a softwood lumber deal.

Frederic Beausoleil

Okay, that's great. Thank you very much.

Operator

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

Stephen Atkinson

Thank you.

Good morning. I appreciate your comments on the softwood lumber, Jim.

On the pulp spin-off, as it were, is there a plan to go down to shall we say zero, to a spin-off of the whole thing?

Jim Shepherd, President and Chief Executive Officer of Canfor

Right now, we're starting at 80% and that's as far as we've thought it through, Stephen.

Stephen Atkinson

Okay. And in terms of the formula for the (inaudible) pricing, where we... I guess there's a new formula right now, obviously, would that be laid out in the, shall we say, in the prospectus?

Jim Shepherd, President and Chief Executive Officer of Canfor

Yes, it would, because we will show transparency on our market principles, and certainly that involves chip pricing and chip buying.

Stephen Atkinson

Okay, and that would then tie to some sort of market price, or...

Jim Shepherd, President and Chief Executive Officer of Canfor

Yes.

Stephen Atkinson

... pulp price, or lumber, or all of the above?

Jim Shepherd, President and Chief Executive Officer of Canfor

Yes, Canfor will be treated as other third party suppliers of chips.

Stephen Atkinson

Okay. And I also would like to... if you can give us a handle on the impact of the (inaudible) non-recurring events in the OSB as well as in the lumber, I would also like that too, but I know that John asked that question, so I won't repeat it. But the other thing I was interested in, in your joint venture mill, are you capitalizing, or are you expensing right now? The Peace River mill?

Scott Wilson

There were a certain number of start-up costs in the range of 16 million, Stephen, that are being amortized over a period of three years.

Stephen Atkinson

Okay.

Scott Wilson

Other than that, and that's pursuant to a Canadian accounting principle.

Stephen Atkinson

M'hm.

Scott Wilson

Other than that, costs have been expensed in the period, and normal amortization of capital.

Stephen Atkinson

Okay, so you've reached a certain operating rate, like, my understanding is typically if you get 65-70% operating rate, then you stop, how do you call it, capitalizing, is that correct?

Scott Wilson

Yes, that's correct. The venture is now in an operational mode, so we are proportionately consolidating our interest in it, but it does have, as I mentioned, about 16 million of costs that related to its start-up operations that are being taken over three years.

Stephen Atkinson

Okay. And so that there was a negative impact from that, as you alluded to in the fourth quarter?

Scott Wilson

That's correct. That's correct.

Stephen Atkinson

In the three, what we have for budget in terms of Capex for 2006 is 300 million, and is that basically your (inaudible) guideline?

Jim Shepherd, President and Chief Executive Officer of Canfor

Well, what we have done is we viewed the timing of these capital expenditures, we also looked at the environment of very high construction costs, I mean, it's a very busy time in western Canada right now, so for a budgetary purpose, we have looked at number of 180 million as opposed to 300 million, but even then, we will be very careful how we spend money, we want to make sure we preserve our bank account, we have now entered in the

transaction (inaudible) so we still have a great deal of opportunity in the Canfor mills, but we'll be very judicious in how we spend that money, so for budget, we've got 180 million, but we're going to be very careful how we spend that, if we spend that much.

Stephen Atkinson

Okay. That's great. And does that include the backburner?

Jim Shepherd, President and Chief Executive Officer of Canfor

Yes.

Stephen Atkinson

And I assume that the 45 million, that was the pelletizing plant as well?

Jim Shepherd, President and Chief Executive Officer of Canfor

As well, yes, that's everything.

Stephen Atkinson

Okay, that's great. Thanks very much.

Jim Shepherd, President and Chief Executive Officer of Canfor

Thank you, Stephen.

Operator

Thank you. The following question is from Paul Quinn from Salmon Partners. Please go ahead.

Paul Quinn

Thanks. Just a couple of questions on the pulp income trust co., just on the... you pointed out that it generated approximately 60 million in EBIDTA and that would have been about 135 million if you had the (inaudible) in the lower fiber cost. What would be the (inaudible) sensitivity on that, I mean, if I take a look at 2005, obviously Canadian dollar is about four cents higher sort of year to date in 2006, and I sort of you know, back of the envelope, that's sort of about 40-45 million dollar hit. Am I in the right range on that?

Scott Wilson

We don't have the precise sensitivity for you here now. I think that's information we will put into the information circular, so I think that's probably best to leave it to that.

Paul Quinn

Okay, and just on Capex, you've outlined 30 million. What's the state of those three mills in terms of major projects, like recovery boilers, that kind of thing?

Jim Shepherd, President and Chief Executive Officer of Canfor

What I'll do is maybe I'll get Paul Richards to answer that. From my perspective, the mills are in pretty good shape, and Paul, do you have a comment on timing?

Paul Richards

Well, my view is that the boilers can be run and maintained as they are today with the same levels of productivity and costs, and they can be run that way for a substantial number of years. There may be an opportunity going forward to look at a recovery boiler

(inaudible) separate from a maintenance and operating perspective, maybe from a high return based on improvements in energy and productivity, but to run them the way they are today, we can run them for certain ten years, I think, without any issue at all.

Paul Quinn

Okay, so these existing recovery boilers which are 40 years old, am I not correct on that?

Paul Richards

Oh, at least one of them is 40 years old, but they're not all the same age, but certainly one of them is 40 years.

Paul Quinn

Okay, and just on... I understand the market pricing for the chips will be (inaudible) what's the current situation? I mean, how did you come to the, I guess the drop in chip process for the pulp and paper segment? You know, you started in that Q3, how did you come up with that formula?

Jim Shepherd, President and Chief Executive Officer of Canfor

Well, the current (inaudible) today is one that really reflects what the transaction prices are going on in the interior of British Columbia. Canfor was probably... was the last company in the interior on the pulp side to get its prices to the competitive level, and so the current price today is probably very similar to what all of the other mills in the interior of British Columbia are paying for chips.

Paul Quinn

All right, fair enough. I'll circle that. Thanks.

Jim Shepherd, President and Chief Executive Officer of Canfor

Thank you.

Operator

Thank you. The following question is from Benoit Lapard from Scotia Capital. Please go ahead.

Benoit Lapard

Thank you, good morning.

A few questions. First, maybe for you, Scott, how will you be accounting for the income fund as long as you retain 80%? Is it going to be proportional consolidating?

Scott Wilson

No. We will fully consolidate the income fund and show a minority interest of 20%.

Benoit Lapard

Okay, great. But will you provide us with significant information for that specific part of the business? Like if there's an EBITDA?

Scott Wilson

Yes, I expect we will.

Benoit Lapard

Okay, and going back to philosophy, where Frederic left, why not including the killer mill in the income fund?

Jim Shepherd, President and Chief Executive Officer of Canfor

The killer mill is a different product of pulp, it's mechanical pulp. We felt it best we separate it out. This mill has been a stand-alone unit even back in the days of (inaudible), so our view was to keep the income trust to be strictly a craft pulp business, and so the only involvement going forward, we are going to negotiate a marketing agreement through the marketing group of craft pulp, and we'll keep it a stand-alone inside Canfor.

Benoit Lapard

Okay, so you won't have that application of sales (inaudible) or things like that?

Jim Shepherd, President and Chief Executive Officer of Canfor

No.

Benoit Lapard

Okay, and more in a philosophical way, does the creation of the income fund, and therefore the distributions to be received in the future, would change the way that you would look at Canfor itself being a dividend in the future?

Jim Shepherd, President and Chief Executive Officer of Canfor

Well, it's always a question of (inaudible), as you know. We feel this is a very (inaudible) way of providing a return back to the investor, and so that's the stage we're at right now. Depending on the performance of Canfor and the cash requirements (inaudible) we'll always be open-minded in Canfor, but there is no intent of reinstating the dividend at this point.

Benoit Lapard

Great, thanks.

Operator

Thank you. The following question is from Darrel ?? from Raymond James. Please go ahead.

Darryl Swetlishoff

Thanks. Good morning. Just with the... sticking with the pulp co for a minute, are there any plans to subordinate any distributions, from Canfor's point of view?

Jim Shepherd, President and Chief Executive Officer of Canfor

No, there are not.

Darryl Swetlishoff

Okay. Switching to the log cost, you mentioned that you're looking at two dollars per cubic meter higher log costs related to timber pricing. We've been hearing some reports of what conditions related to dead trees in the BC interior leading to weather conditions in the woods. Are you seeing any harvesting cost inflation related to this factor at all?

Jim Shepherd, President and Chief Executive Officer of Canfor

Overall the numbers are very stable, you know, we've had to deal with trucker contractor rates, we've had to deal with higher fuel costs, we've had to deal with increased (inaudible) prices paid on grade 3 logs, or the more decadent log sourcing, so there's always those cost pressures to push up, but off-setting that, there's a lot of efficiencies in the way we're harvesting, the way we're planning, going forward, the volumes that we're bringing in, so I think there's a balance both on the cost upside but on the efficiency side, keeping things relatively stable. So, that gives us the comfort that we're not seeing a lot of pressure pushing prices up in terms of (inaudible) log costs.

Darryl Swetlishoff

So the net increase of two dollars is not a bad number to (inaudible)?

Jim Shepherd, President and Chief Executive Officer of Canfor

I think it's a reasonable number for us to be using, and obviously we like to keep the number as low as possible, but I think it's reasonable. And we are harvesting good volumes right now. Our mills are well stocked with logs, so we don't have any issues in terms of any supply side at this point.

Darryl Swetlishoff

Okay, thanks. I'll turn it over.

Operator

Thank you. And the following question is from Pierre Lacroix from Desjardins Securities. Please go ahead.

Pierre Lacroix

Yes, good morning. Thank you.

Just a question about the pulp income trust, on the... I want to share some of your views about the (inaudible) of the commodity and the Canadian dollar impact. Obviously we had the example in the past. The edging strategy, the current versus what you intent to do going forward with that new income trust, versus Canadian dollar in the pulp side too.

Jim Shepherd, President and Chief Executive Officer of Canfor

Well, the... at the current time, there are forward sales that are put on from time to time in the pulp business, but it is not to a significant degree, and the management of the pulp business will be making those decisions going forward. I think sort of standing back from your question, we view that the current Canadian mill nets associated

with the pulp business are very close to their sort of historical trough level, such that any further strengthening of the Canadian dollar is likely to lead to a response on the price side. And so that's kind of where we see it at this point.

Pierre Lacroix

Okay. Excellent, thank you. That's all for me.

Jim Shepherd, President and Chief Executive Officer of Canfor

Thank you.

Operator

Thank you. The following question is from John Stewart from TD Newcrest. Please go ahead.

John Stewart

Thank you. A couple of questions.

Circling back on the revised chip pricing formula, can you give us an idea in Q4 how it played out in terms of lower cost, the pulp segment versus lower chip revenues at the saw mills, and how that might have impacted things at each division on either I guess year over year or quarter over quarter basis.

Jim Shepherd, President and Chief Executive Officer of Canfor

So you're looking at quarter over quarter? Well (inaudible).

Paul Richards

It probably improved our EBITDA into the tune of five million dollars per month, and it probably affected the lumber side internally negatively about two thirds of that.

John Stewart

Okay, that's helpful. And I guess the other question I had is, your comments on the joint venture of OSB mill sort of echoed with what (inaudible) said on their conference call, and Jim, if you could just go into a little bit more detail on I guess some of the specific issues on why the start-ups been a little bit slower than expected. Is it just the competitive labour situation, or is there more to it than that?

Jim Shepherd, President and Chief Executive Officer of Canfor

It's a combination of things. First of all, we ran into a very, very tough construction environment, just taking into account the fact that builders, contractors, equipment manufacturers are extremely busy these days, the oil and gas sectors may be the biggest influence we have, especially in that region of the province, and so there was a push to get this mill finished, we wanted to get it all done by wintertime, and it just seemed that there was a struggle to get it all done. It wasn't exactly the perfect schedule, so we got into a start-up that some would say was pushed or rushed a little bit ahead of time, so that always creates some operational issues at the start. And then we've run into a couple of snags, especially at the green end, getting enough wood into the mill, and some of the (inaudible) capability, just having enough supply in the press section. When I look at the fundamental of the mill, I mean, the heart and soul, the press, the kind of process that gets ready for the board manufacturing, everything works extremely well, so we're dealing more in the (inaudible) than we are in the heart and soul, and so it's just taken some effort to get this thing tuned and ready to go, so again, working very closely with LP, there's a lot of expertise in both companies that deal with this kind of stuff, and I am seeing, I guess my sense is this will be an extremely good mill once we get some of the initial bugs out of the way and get it up and running, and we've already seen signs of that now.

John Stewart

Okay, thanks very much.

Operator

Thank you. The following question is from Paul Quinn from (inaudible) Partners. Please go ahead.

Paul Quinn

Yes, just clarifying that, overall Capex budget for 2006, 180 million down from 300?

Jim Shepherd, President and Chief Executive Officer of Canfor

Yes.

Paul Quinn

What are we spending... I saw that 47.9 million on (inaudible). What was the budget for that, and what have you spent so far?

Jim Shepherd, President and Chief Executive Officer of Canfor

Yes, the budget for that was 104 million, we have... as we speak, the mill is virtually built, everything is up and running, we're going through the fine-tuning phase now, and we'll be slightly over that at 108. And that will be all including (inaudible) contractors off site, and the mill finished.

Paul Quinn

Okay, and what was the final price tag for the Peace Valley?

Jim Shepherd, President and Chief Executive Officer of Canfor

255.

Paul Quinn

255?

Scott Wilson

Jim, may I just make a slight correction on that, it's just a little bit ahead of that, probably 257, 258 on the capital side, and that's before those deferred costs that I mentioned earlier of about 16 million being taken over three years.

Paul Quinn

Okay, so this... just trying to recall, this was... 214 was the initial budget on the...

Jim Shepherd, President and Chief Executive Officer of Canfor

214, we had no contingency built into that at the very beginning, rightly or wrongly, we decided to go in with an absolute number as opposed to most projects have a 10% plus contingency built into it. So that was not included in the 214 number, and so we've ended up as Scott mentioned.

Paul Quinn

All right, maybe switching to an easier topic, can you comment on David Emerson's appointment as international trade minister, and how you expect it to affect the softwood lumber file?

Jim Shepherd, President and Chief Executive Officer of Canfor

Well, it's... I think overall it's positive. David certainly knows the industry. He certainly understands the file, he certainly has been a strong voice for the province of BC and the industry in BC, so I think all those are positive, certainly for Canfor. And my hope is that David is able to break through some of the bottlenecks we've had in this file going forward. He certainly doesn't have to be (inaudible) on it, he's been around this thing for a lot of years, and so my hope is that with the Prime Minister's support, and with the Premier's support here in BC, that we can find some avenues to dialogue with the US and see where we can get the breakthrough. By David being involved here I think is a positive.

Paul Quinn

Great. Thanks.

Operator

Thank you. We will now take questions from the media. If you have a question or a comment, please press *1 on your telephone keypad.

Our first question is from Gordon Hoekstra

Gordon Hoekstra

Good morning, gentlemen.

Jim Shepherd, President and Chief Executive Officer of Canfor

Good morning.

Gordon Hoekstra

Question on the Houston project, the pellet plant.

Jim Shepherd, President and Chief Executive Officer of Canfor

Yes.

Gordon Hoekstra

Will that be creating any additional employment at the mill there?

Jim Shepherd, President and Chief Executive Officer of Canfor

Well, it will be under a separate company, it'll be operated by Pinnacle. I'm not sure how many employees are going to be involved, but the answer is yes, some additional employment will occur in Houston.

Gordon Hoekstra

Now, I can't remember whether it was a couple of conference calls ago, or earlier, you mentioned, you know, Canfor taking a look at, you know, sort of the value-added sector. Do you consider this project to be part of that, and might we see more of this kind of thing?

Jim Shepherd, President and Chief Executive Officer of Canfor

Well, I would rate making pellets as value-added, I mean, we've seen a lot of uses for whitewood waste over time, sometimes it's put in (inaudible), sometimes it's put in particle board. Pellets become increasingly interesting because of the demand in the market place. I know Japan is becoming a very, very good market for pellets, and with recent gas interruptions and higher gas prices in Europe, I know there's an increasing demand there, so if you look at what has traditionally been a waste of (inaudible) saw mill, by putting in the pellets, I call that value-added.

Gordon Hoekstra

On the pulp income trust, it mentioned in the news release that there will be long-term fiber agreement between Canfor and the trust. Can you give any specifics on that, how long that agreement will be for, and you know, for how much, you know, fiber, how much chips that will be for?

Jim Shepherd, President and Chief Executive Officer of Canfor

Well, we want to make sure that the Canfor income trust do have a relationship of residual wood going into the pulp business, so all that will be explained, Gordon, in the information we send out to the shareholders.

Gordon Hoekstra

In the prospectus?

Jim Shepherd, President and Chief Executive Officer of Canfor

Yes.

Gordon Hoekstra

Some concern expressed by spinning off the business into an income trust that perhaps over the long term, I guess depending on what happens with markets and chip supply and prices that the income trust and the pulp mills might not be able to, you know, invest the kind of capital, especially if they're big ticket items, is there any concern on that? I mean, I could see how, you know, maybe from a business perspective, it's a different issue, but from a community perspective, you know, might have a concern about the viability of those operations.

Jim Shepherd, President and Chief Executive Officer of Canfor

All right, well, our... you know, our message to the community is basically business as usual, everything will carry on, and we expect to see pulp mills from Prince George for a long, long time into the future, so the

question is, has the business itself has the financial viability to withstand its own resources and own needs, so to me, pulp is in fact a business that we believe in, it will be able to carry on its business and reinvest the capital that's required, but as we all know, this is a very tough game, it does take a lot of capital, the dynamics around the world have changed how pulp is sold and what the prices are, which impacts the profitability, so it's always an unknown and a risk, but the mills are in very good shape today, and we don't see any immediate risk going forward, so I think from a community perspective, it's business as usual.

Scott Wilson

And Jim, maybe I could just add to that, I think that the maintenance capital expectations that would be withheld from distributable cash as well as the ability of the income trust structure to raise capital, which is becoming something that is more, you know, people have more confidence in with every month kind of thing, that we're confident that the pulp co will have the means to meet whatever needs come forward.

Gordon Hoekstra

And will the income trust, I mean, will it have a separate management structure in the board of directors?

Jim Shepherd, President and Chief Executive Officer of Canfor

Yes.

Gordon Hoekstra

And when will that sort of unfold?

Jim Shepherd, President and Chief Executive Officer of Canfor

Well, our schedule is to have it all implemented by the end of the second quarter. That's our schedule.

Gordon Hoekstra

And what kind of... are there regulatory steps in terms of get... administration-wise, to get this going, what has to happen in the next couple of months?

Scott Wilson

No, there's nothing really significant. We have a shareholder vote that has to take place, and an advance income tax ruling to obtain, and those are the two most significant administration items.

Gordon Hoekstra

When will that shareholder vote take place?

Scott Wilson

Mid-June, if you didn't hear that.

Gordon Hoekstra

Sorry.

Scott Wilson

Mid-June.

Gordon Hoekstra

Much appreciated. Thank you, gentlemen.

Jim Shepherd, President and Chief Executive Officer of Canfor

Thank you.

Operator

Thank you. Our following question is from Allan Dowd from Reuters. Please go ahead.

Allan Dowd

Just following up actually what Gordon was asking. The 80% figure, how did you decide on this sort of split between what you're going to hold and what the shareholders... distribution to the shareholders? And also, again, I know it was asked earlier, I'm just trying to get an idea as to how long you see that holding at that 80% rate, for the long term, or do you see yourself reducing that over time?

Jim Shepherd, President and Chief Executive Officer of Canfor

First of all, on the 80-20 split, it's a judgment. We felt this was the right balance to start. It will give shareholders in the company an opportunity to be part of the ownership of the pulp business, and yet, (inaudible) as we look at the market going forward, and the 20% that is out there with the shareholders, I think is enough of a volume for some sort of market value to be created for whatever these units will demand in the market place. So it's a judgment on the right balance, and that's how we can to that decision.

On the basis of 80%, the only decision that we made is to start this way. We have not made any decisions going forward in the future, and what it might mean to our position down the road.

Allan Dowd

Thank you. On the (inaudible) do you see keeping that for the long term, or is that also going on the market to try to get out of pulp completely (inaudible)?

Jim Shepherd, President and Chief Executive Officer of Canfor

Well, I think... we have a history of the (inaudible) utilizing the residual (inaudible) in the Fort St. John, Fort Nelson region, so certainly that has a purpose, and there's no intention at this point in time to change the ownership structure, but it is a (inaudible) and we're always sort of reevaluating what the options are there, but right now, our intent is to keep it in Canfor.

Allan Dowd

Thank you.

Operator

Thank you. And the following question is from Ben Meisner from Opinion 250. Please go ahead.

Ben Meisner

Jim, I'm having a little trouble with this, in the pulp and the trust. Do you have... by making up the structure you have, as you have it now, does it make it easier for an outsider to come along and purchase up the trust, or does it preclude that?

Jim Shepherd, President and Chief Executive Officer of Canfor

I would say, well, it may be... I don't think it makes any difference. If somebody wants it bad enough, they're going to pay the value for it, so whether it's inside a company like Canfor in a separate unit, but I think it makes it easier for people to either be part of pulp, or not being part of pulp. When you have a share of Canfor, you're just part of pulp automatically, so I think it provides a little more flexibility to the investor as to whether he wants to be part of a pulp business, or a more pure lumber company, and that's really the advantage we're providing here to the shareholders of the company. But if somebody said, "Look, I want to be in the pulp business and I want those pulp mills in Prince George," I don't think it makes any difference in terms of the difficulty of buying them whether it's in a trust configuration or within a corporation.

Ben Meisner

Have you ever been approached, Canfor been approached by Scandinavian interests with a view to buying those three mills, or was there ever any negotiation?

Jim Shepherd, President and Chief Executive Officer of Canfor

I have never been approached, and I've never had any discussion on it, so not in my time.

Ben Meisner

So no one has really come along saying they'd want to buy those pulp mills?

Jim Shepherd, President and Chief Executive Officer of Canfor

No, no one's knocked on my door.

Ben Meisner

Now, second question I have deals with the other issue, and that's a matter of the purchase of Southwest. Now, you're going to be a member of the US coalition, and at the same time, you're a member of a Canadian coalition, and you're looking for a settlement in the Canadian softwood lumber dispute. You've got 700 million, or somewhere around there, parked in the American treasury, but by being a player on the south wood, you also are a player down there, you could be in receipt of some money on that side. Are you going to belong to both of those, to the American coalition and Canadian coalition, or will you peel one off?

Jim Shepherd, President and Chief Executive Officer of Canfor

At this point in time, we're not part of any coalition, so even on the Canadian side, our standing out there is one

company, and trying to be helpful in looking for options and solutions, but never giving in to the interests of our company and what's in the best for Canfor. So I... you know, you're right, we're 700 million US dollars on deposit, and we think about that kind of money, just shows the magnitude of this dispute, and the risk that this industry in Canada has taken on to solve this thing, originally intended once and for all. But on the US side, our intent was to finish the transaction of the south. They have been a very active member in the coalition, but it's too early to say what Canfor's role would be with the ownership of those mills, I think it would be an awkwardness to say that least, to have a Canadian company walk in the door and say "where do we go from here", so it's unfair to me just what that would mean, so our first step is just to get this thing done, and then we'll go from there.

Ben Meisner

There's a great deal of talk that the US has offered up 75% of that money that you paid back to the supplier, being you, and then 25% kept south of the border. But I mean, how does Canfor approach it? You say, listen, if we get 75% of the money back, we'll take it and run like hell, or... how do you look at it?

Jim Shepherd, President and Chief Executive Officer of Canfor

Well, I always look at it as a package deal here. I think more importantly than the duty deposits, which is very relevant and very important, look at the... what are the conditions of the deal. I mean, we have... this is a tough game, and with currency and all these other issues that affect us just on a day-to-day business setting, what is the deal? And so that to me is a number of items including the duty deposit split. So as most in the industry would say, that's the last thing you talk about depending on the quality of the deal and the form of the deal.

Ben Meisner

Yes, so, I don't want to put words in your mouth, but you're saying, give me 75%, no arms and legs attached to the deal, and I'll take it. Would you do that?

Jim Shepherd, President and Chief Executive Officer of Canfor

I'm not sure what that means.

Ben Meisner

(inaudible) condition, saying, we'll give you 75% of your money back, we're going to throw the border wide open, we're going to go back to the proper system under the (inaudible)? Would you...

Jim Shepherd, President and Chief Executive Officer of Canfor

I'm not going to comment because I think at the end of the day, there's still a tremendous amount of confusion as to what would work for both countries. The biggest issue is in Canada, I said earlier, I don't want to be disadvantaged with a softwood lumber deal, Canadians want market access, that's the ultimate goal here. I think what the US wants is some protection from, as they see it, an industry that has the (inaudible) north of the border, and how do they get that protection. So, I'll just leave it at that. I think at the end of the day, there's always common ground on these things, we just haven't been able to find a way to talk to each other.

Ben Meisner

All right. Final question, Jim, so for the people of this region who may be employed at Canfor pulp operation in Prince George, they need not worry, Canfor is not selling them, they have no intention of selling them, and it's just a matter of how they're going to operate within the company confines that is what's created the income trust?

Jim Shepherd, President and Chief Executive Officer of Canfor

Yes, and I think it was done for two reasons, again, focus on business as well as a vehicle to benefit the value for the Canfor shareholder, but (inaudible) Prince George, it would be going to work, business as usual, and a very dedicated team looking after their interests.

Ben Meisner

Thank you.

Operator

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

Jim Shepherd, President and Chief Executive Officer of Canfor

I just would like to say thanks to everybody for phoning in this morning. There were a number of unanswered questions, and there may be other questions that weren't asked, so please give us a call. The most important thing for us, we get the accuracy of any answers that you need, and we're open to hearing from you. So thanks very much this morning, and have a good day.

Operator

The conference has now ended. Please disconnect your lines at this time. We thank you for your participation and have a great day.