

CORPORATE PARTICIPANT

Mr. Jim Shepherd
President and Chief Executive Officer of Canfor Corporation

CONFERENCE CALL PARTICIPANTS

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CIBC

Mark Bishop
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Patrick Wong
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PRESENTATION

Operator

Good afternoon ladies and gentlemen. Welcome to the Canfor Corporation second quarter 2005 financial results conference call. Please note that this call is being recorded for webcasting purposes and will be available at www.canfor.com. Following the discussion by Canfor management regarding second quarter results, analysts and investors are invited to ask questions. Once analysts and investors are finished, Canfor management will be available to take questions from the media.

I would now like to turn the meeting over to Mr. Jim Shepherd, President and Chief Executive Officer for Canfor Corporation. Please go ahead Mr. Shepherd.

Mr. Jim Shepherd, President and Chief Executive Officer of Canfor Corporation

Thank you operator. With me today is Terry Hodgins and Kevin Clayton who are able to answer questions that will follow through the discussion that we have briefly with you.

As reported shortly ago, we announced a second quarter result of \$25 million net income in the second quarter of the year 2005. EBITDA was \$105 million. Impacted during the quarter was the decline in lumber prices as well as we saw in our pulp business, with continued decline of prices going into the pulp market itself.

Combined with that, there have been a number of one item, or one-time item that have impacted the numbers with the sale of the number of our assets during the quarter. The Valemount, Slocan, Fort St. James are all sawmills that were part of the company at the beginning of the year have now been sold and moved on to other ownership.

Also, the impact of the closure of Hines Creek in Northern Alberta has finally come to the point where the, the write-downs of that closure and so forth were built into the second quarter numbers as well as the sale of our genus company, the IT company doing software programming for forestry work was sold during the quarter.

Combined with the, the write-downs, we also had a number of other one-time charges involving severance costs and other sales of the Hines Creek site and the Taylor sawmill land in Taylor just by Fort St. John. All these things had an impact on the, on the final results for the company and certainly will be a point of discussion as we go forward into this call.

Overall, the operations ran quite well. Very pleased with what happened in our solid wood side. The mills continue to show signs of improvement. We saw productivity gains as well as lower costs going forward into the quarter and certainly coming out of the second quarter, much of the work that's been put into these facilities is now showing signs of improvement and where we'd like to be. We have much room to grow in terms of

reducing our costs and this will continue to be an effort at Canfor going forward as we invest our capital and improve our operating performances in the lumber business.

Panel had a difficult quarter. Investment in our Polar Board mill up in Fort St., Fort Nelson, we went through some start-up issues there as well as some recent additions of equipment into the Tackama Plywood mill, came back to have some difficult start-up curves and at the end of the day, we had a difficult quarter when our panel operations were finalized, but we do expect these to improve going into the third quarter as well.

Pulp and paper, the big event here was a 14.5 day maintenance shutdown over at our Northwood pulp mill. This was impacted back in April, but following that maintenance down, this facility has run near record levels and all of our facilities in For, in Prince George are now running extremely well.

That gives you just a very brief overview. I'll hand it over to Terry Hodgins to give you some more detail on the numbers, then I will come and go through some of the elements at Canfor inside the company and other items affecting the business.

Terry?

Mr. Terry Hodgins

Thank you Jim. I will begin with some housekeeping items. This call will include forward-looking statements. Please refer to the press release for the caveats this implies.

The news release and report to shareholders was approved at the regular scheduled board meeting this morning and released to the newswire immediately thereafter. We recognize that you have had limited time to prepare for this call, but felt it more appropriate to hold the call today rather than wait until after the long weekend and, and have the call next week.

In addition to the consolidated corporate results, the press release also includes segmented information which I will discuss. As mentioned, market prices for all of Canfor's product lines declined from the first quarter. Benchmark market declines of 8% for lumber, 16% for OSB, 18% for plywood and 5% for pulp. Also wanted to remind you that the benchmark 2X4, 2 and better random

length market declined 8%, but other woods in the, in the spectrum that we produce declined by differing amounts, in particular 2X6 experienced greater price reduction.

On a segmented basis, the lumber segment generated EBITDA of \$87.5 million or 12% on sales, although prices declined over Q1, sales dollars increased by 10% to \$704.9 million, due to a 16% increase in lumber shipments. The excess lumber inventory accumulated in the first quarter was reduced in Q2 by over 40 million feet from higher shipments and an additional 38 million feet from the divestitures of the three lumber operations.

The railcar situation has improved significantly from the early part of the year. In response to disruptions in the container traffic through the port of Vancouver, we have secured vessel space for 20 million feet of lumber for August deliveries to offshore markets should the disruptions continue and this vessel be required.

During the quarter, we continued to experience lower costs in our cash conversion costs throughout the period. Our cash conversation costs are now running in the 107, 108 range, which is down \$2 or \$3 from the first quarter. And, and then on, around \$10, a little over \$10 from the 2004. During the quarter, we paid an expense US \$56 million in US lumber duties, bringing the total deposits since inception in May 2002 to US \$652 million.

The panel segment generated EBITDA of \$11.8 million or 13% of sales, a 14% increase in OSB shipments was more than offset by market price reductions in both OSB and plywood, resulting in panel sales for the quarter of \$89.8 million, a 5% decline from the first quarter. OSB earnings were negatively impacted by down time at the Polar Board mill for the installation of new dryers and other equipment to increase flight production and overall OSB production at this site. We continue to improve our plywood competitive position with cost reductions of approximately 5% from the first quarter.

Pulp and paper segment generated EBITDA of \$8.3 million or 3% in the second quarter. Increased shipment volumes in the quarter more than offset the effect of the 5% decline in NBSK market prices. Conversion costs were impacted by the Northwood maintenance shut, but improved productivity subsequent to the shut enabled us to maintain unit costs production similar to the first quarter. Current productivity levels will favourably impact costs going forward.

Wood chip prices in the BC interior are falling, which as Canfor is a net purchaser of wood chips, we will benefit from this change going forward. The coastal logging segment operated for most of the quarter compared to

only 12 days operating in the first quarter, building inventories through to June 30th. These operations are currently shut down due to poor market conditions and to reduce inventory levels.

Capital expenditures for the full 12 months of 2005 are expected to be in the \$320 million with anticipated completion of all major projects on budget and on time. The OSB joint venture construction is scheduled for completion in September and the Plateau mill rebuild is on target for completion by the end of the year.

The scheduled debt repayment of \$10 million US was made in the second quarter and a total additional scheduled debt repayment of US \$41.2 million will be made in September and October. This will reduce our long term debt to US \$547.5 million by year end.

Guidance on our income tax rates, we expect a tax loss of carry forwards will enable us to effectively tax our earnings at 21% for most of the third quarter before reverting to normal 35% rates for Q4 and beyond.

Jim?

Mr. Jim Shepherd, President and Chief Executive Officer of Canfor Corporation

Okay, well thank you Terry, and I'm just going to go through a number of topics here in regards to where Canfor is today. And let me start with our capital projects and the significant amount of money we're spending in a number of our facilities.

First of all, the cogeneration unit up in PG Pulp, Prince George, is now up and running and using hog fuel as a source of, of fuel for the steam generation. So this facility is now up and running. We have a process of putting in a new precipitator in the boiler house and it will be ready sometime first quarter of the year 2006. But currently, we're producing as planned 75% of the rated capacity of this unit and lowering energy costs as we speak for our pulp operations up in Prince George.

Our OSB joint venture up in Fort St. John with our partner Louisiana-Pacific, is nearing completion and expectation is that we will start making first board of the first few weeks of October. This plant is certainly well situation with the fibre basket and nearing completion. At this point, we're very anxious to see the mill start up and producing cash.

Our Polar Board facility in Fort Nelson, as mentioned earlier, did get an infusion of \$25 million. The facility was shut down and new equipment was installed in April of this year. Upon start-up, we had a number of technical issues but the rated capacity of this plant has grown 650 million square feet per year. And as we've gone through an expected start-up curve, it's now starting to realize what the expectations were and going forward, this mill will be a very, very low cost high, highly productive mill in the business of OSB.

And as Terry mentioned, the, the Plateau mill is well underway of being reconstructed with over 70% of the money committed and it's the kind of asset that Canfor is investing to make itself even more competitive going forward into the future. And so, we fully expect this mill to be finished and in the throes of start-up as we end the year going into the year 2006.

The markets themselves, housing starts and certainly in North America continue to be at a very, very high rate. However, many, many in the business, not only on the supply side, but the whole construction side, are wondering if in fact, this, this number of starts can be sustained and therefore there is an expectation that there will be some minor correction as we go into the latter half of the year.

Supply of lumber panels and building materials into the housing market has met, grown to the demand and that has put some downward, downward pressure on pricing and we are currently prices in the 330 number on the 2X4 benchmark, which is somewhat lower than we've seen over the last 18 months, but not unexpected in terms of the supply and with the amount of wood that is available in the marketplace.

All the more important for Canfor to continue on its investment in the assets because as we see the competitiveness in this business, it's important that we get our costs down in line to what the very, very strong competitors are out there.

Panels as well have seen decline in pricing, more so in plywood, in part because of the Canadian market and what the prices are currently. So we have obviously seen a decline in the profitability but OSB remains relatively strong and as long as housing starts are at a high level, OSB will continue to be a good product to be in and good volumes going into the marketplace.

Pulp, one of those stories where it's always going to be a better day, and as Terry mentioned, the over supply of chips in the central region of British Columbia has put a

significant downward pressure on chip pricing, which will not only impact the lumber side of the business, but the pulp business will see a gain with the lower value chips going into the business and obviously reduce the cost significantly on a per tonne basis.

And if their prices fall in the \$20 to \$25 per BDU rate, this will have a \$50 impact on the (inaudible) a tonne of pulp, which is clearly advantage for the pulp business going forward. We have seen an increasing demand inquiry for pulp. Chinese buyers are now calling to see if there's pulp available and we have a number of low inventory markets out there that are calling for some replenishing, so our expectations is that as we go, certainly into the latter half of the year, that the pulp market itself will start to see some strengthening in improved profitability.

The Coast is continuing to be a very difficult market for us. Englewood is currently shut down. We did operate for the bulk of the second quarter and now it's, it's a matter of selling off the inventories that we have made, put into the water in terms of logs, but this is continuing to be a very difficult business as we see going forward for the next few months.

In terms of our intent, down time in the third quarter is going to be minimal. We do have a number of minor shutdowns in and around the sawmills. Fort St. John has shut down for three weeks of maintenance. We continue to run the planer mill there, but most of our sawmills will be running throughout the quarter fully and our pulp mills also intend to do the same.

We did announce a shutdown of the Tackama stud mill up in Fort Nelson effective August 1st, and this will be down indefinitely and more effort going into the manufacture of plywood.

In terms of transportation, no current issues, as Terry mentioned, with the railcars. However, the container truckers/drivers strike here in the lower mainland, in the port of Vancouver, is having an impact on Canfor. We have made a very strong commitment to the Asian market, not only in pulp and in lumber and we have seen a backlog of our products, right, right to the mill yard as well as the backlog in some of the warehousing facilities that we have in place and it's getting to the point where customers are getting quite concerned about their supply.

And so the sooner the strike is resolved and we get to business, it will go a long way to helping Canfor meet the commitments that we have made to our Asian marketplace. We are looking for alternatives and we have found a number of great (inaudible) opportunities for both lumber and pulp that will replace some of the

containerized process that we've had in the past and we have actually looked at putting the product down through the port of Seattle, all at increased cost. And so, again, I only encourage the parties involved to find a solution so we can get back to business as normal here in the port of Vancouver.

I'd like to make a brief comment on the trade file, if I could. There was a well, it's certainly well known by now, a recent gathering in Washington. Federal government to federal government came together to see if in fact there was an opportunity to find a resolve to this long outstanding dispute. And we all, as Canadians, can understand the fatigue that has fed in here and the frustration that is all recognized.

And from a Canfor perspective, we now have over \$650 million US on deposit and a number that continues to grow and if you look at our second quarter results and the amount of money this company puts into deposits and the impact on our financials in our, in our, on our results is tremendous. And so, the intent in Washington was to in fact explore opportunities to negotiate a resolution to this. This is under the umbrella of Canadians continuing to win the litigation. I think it's recognized both sides of the border that the NAFTA process has led to a clear Canadian outcome here, recognizing that there are a number of milestone decisions yet to be made. And that's always, it's never a guarantee, no matter what the, what the process we're in, but as Canadians, we feel very good about what has happened in terms of the litigation.

The difficulty is finding the solution that can meet everybody's needs. And not speaking at all for the US side, only speaking from the Canadian perspective, as been attempted a number of times, the Canadian approach has been finding a pan-Canadian solution recognizing from the Maritimes to the West Coast. There are different businesses, (end of tape) business, and yet we're all encompassed in the softwood lumber issue.

And, you know, from the federal government's perspective, it's been an attempt to try to find that common ground and clearly it's not there. And there are just too many differences that the industry has to recognize and to have the solution presented by industry to, to our government is just too much to ask. And so, we'll have to find those solutions that certainly take into account the geographic regions of the country. But at the end of the day, this is going to be a very, very tough future for negotiation on the basis that there are just too many differences across Canada and it's just going to be a very, very difficult solution to find.

In terms of going forward, we will continue to operate our assets fully. We will continue to lower our costs. I will just make one comment on the solid wood side. When I go back three quarters ago and think of the improvement in our solid wood business, which is really in many ways, the heart and the cornerstone of Canfor, operating costs have come down, I would say roughly 10%. And it's the kind of progress that we have to see in Canfor going forward and I'm very encouraged by that.

Recently, we made a couple of announcements, just to provide you some footnotes on that. We formed a joint venture with Tolko on the Premium 1 Papers, which will be located in Kelowna selling our (inaudible) kraft paper out of Prince George and in Le Pas, Manitoba on behalf of Tolko and we look forward to working with Tolko on this new company and this new marketing approach to the business of selling paper and our hope is that we'll see a benefit to both companies on the basis of the common approach to the marketplace.

And we also recently announced our new distribution centre here in, in Richmond for the Asian markets around lumber. We're very excited about growth opportunities throughout Asia, and so we want to be demonstratively showing the world that we in fact are ready to take on that market and supply product at a very convenient way, albeit we need to get this container strike resolved because it's not giving the impression that we want to give to our outside customer base.

On a last note, our new CFO, Scott Wilson, is en route to Vancouver as we speak. His first day will be starting on Tuesday of next week, so all of us in Canfor are looking forward to welcoming him into Canfor and he has an awful lot of challenges in front of him, but we know he's up to the task and he'll be a very welcome member of our management team going forward.

With that, operator, I would like to turn the phone over to questions so that we can respond to, to the people on the phone.

QUESTION AND ANSWER SESSION

Operator

Thank you. We will now take questions from the telephone lines. If you have any questions, please press star 1 on your telephone keypad. If you are using a speaker phone, please lift the handset and then press star 1. At any time you may cancel your question by pressing the pound sign. Please be advised that

questions will be taken from investors and analysts, followed by media if there are no further questions (inaudible – technical difficulties).

Our first question is from Don Roberts of CIBC. Please go ahead.

Don Roberts, CIBC

Thanks very much. Jim you were referring to the, the weakness in the chip prices and so forth, and you know, part of that's driven by the pulp, but when do you see, I guess, renegotiation on the chip contract formulas between pulp and chips? And, I guess, I'm just wondering on time frames, and what kind of magnitudes we might be seeing, you know, just from that general benchmark of I guess 11% ratio to I guess, what range would you guide us to?

Mr. Jim Shepherd, President and Chief Executive Officer of Canfor Corporation

The chip contracts are being renegotiated as we speak, Don. The, the intent by Canfor is to understand that the chip supply is a very big part of our pulp business. We have to be competitive in pulp. So a number of cases we have contracts that go out for another year or so, and the intent is to try to sit down with those particular suppliers of chips and say that we need to have some current market pricing built into the formula and to the current pricing.

Because those negotiations are ongoing, I won't give you a sense of what, what the particular percentage will be, but it's really looking at moving the chip pricing as opposed to tied to transaction price, bring it back to nil net and the impact of that could have a \$20 to \$25 per bone dry unit drop in the value of a, of a unit of chips. And so, the timing is right now. So we have an inventory in front of the mills. It's going to take, I'm going to say one, two months to use up. But as we bring in the new, the new chips at the newer price, it will start in July.

Don Roberts, CIBC

Okay. When you're sitting back again and assessing your growth opportunities, we've had a number of looks like franchises now, perhaps looks like they're going to be shopped in the States, can, could you just reiterate and summarize your view on, I guess, the yellow, southern yellow pine asset, assets, whether you would compromise from your SPS, sort of, (inaudible) to look at that. And this is both in the context of the lumber, but also your view on the plywood, given that you've already got a pretty big Canadian franchise now on that.

Mr. Jim Shepherd, President and Chief Executive Officer of Canfor Corporation

I will start with the geographics, and there's no question Canfor has to go beyond the current boundary of BC, which is the bulk of, of our, of our current operating base. So, the United States is a very favourable place. We have every intent of moving into the United States with acquisitions or growth opportunities in the US. And, you know, we'll be very aggressive on looking at those opportunities.

In terms of southern yellow pine, I wish we were in the southern yellow pine business right now. It's got a very high premium to SPF. It's enjoying some very good market pricing. And, I'm not quite sure why but how long it'll be sustained, but it's one of those species that has challenges no doubt, but it has structural component. And with the number of the recent announcements and asset sales, IP for being an example, we'll be very much looking at those and just seeing where the fit might be.

So, as much as SPF has a preference to Canfor, we will not discount the opportunity in southern yellow pine.

Don Roberts, CIBC

Would you also expand your, I guess, your horizons to looking at ready add, and maybe some of the Carter assets?

Mr. Jim Shepherd, President and Chief Executive Officer of Canfor Corporation

I think that would be stretch right now to go that far afield, Don, but I would, I would stick closer to home as the first venture for Canfor.

Don Roberts, CIBC

Okay, and then lastly, your view on plywood. Is it something you want to stay away from in the States or willing to expand?

Mr. Jim Shepherd, President and Chief Executive Officer of Canfor Corporation

Plywood is a tough game and a lot of the plywood that's going into the treated business, I think OSB is the better product at this point. So plywood to me would be less of a preference in structural wood.

Don Roberts, CIBC

Okay. Thank you.

Operator

Thank you. Our next question is from Mark Bishop, RBC Capital Markets. Please go ahead.

Mark Bishop, RBC Capital Markets

Thanks Jim. Just a question on the plywood OSB dynamic right now. You mentioned that plywood prices are quite depressed but you think OSB will fare better and that may well have been on the margins side, but I'm just curious what you're seeing in the marketplace where I understand there's a lot of resilient plywood coming into the market and, and is there an enough an of interaction still between plywood and OSB in terms of the price differential that we may well see not only just to capacity impacting OSB prices but a switch-back to plywood if, if that's sort of a current situation with cheaper plywood out there?

Mr. Jim Shepherd, President and Chief Executive Officer of Canfor Corporation

I think price in many ways drives an awful lot of the motivation of the buyers. I know plywood, at least on the Canadian side, has been more of a traditional product to use and, and it's been a slower growth market for OSB than, say, the US market. But OSB, regardless of the origins of plywood, whether it be resilient plywood or southern, southern yellow pine plywood or other aspects of the plywood business, OSB has got a very competitive price advantage on those plywoods.

And so, at this point, Mark, I don't see OSB really giving ground in market share of the plywood, regardless of where it's coming from. And that's certainly on the, on the very brief sampling that I've done in talking to our customer base. There's a preference for OSB because of its now well entrenchment into the home building industry. People like to use it and it's got cost competitiveness.

Mark Bishop, RBC Capital Markets

Okay. Just on the heels then of Don's question on, on plywood in the US. Sounds like there may be, in the event that you would go to the US, a preference for OSB assets then?

Mr. Jim Shepherd, President and Chief Executive Officer of Canfor Corporation

Well OSB has always been a business that we've liked here in Canfor and certainly are growing it. So, depending on the opportunity and the price and, and where it is, I think we'd be open to both but OSB certainly has a future that we like.

Mike Bishop, RBC Capital Markets

Okay. Just switching to your Prince George cogen facility. I just, if you could remind us again what the target annualized savings was to be for, from that project and sort of where we are with the run rate currently?

Mr. Jim Shepherd, President and Chief Executive Officer of Canfor Corporation

Annualized, it's, it's going to be a \$19 million saving for Canfor and that's going forward. Currently, we would be recognizing about 75% of that, and we will up to 100%, I'm going to say, the end of the first quarter of 2006, hopefully in February. But \$19 million is the annualized savings in the pulp business in Prince George.

Mark Bishop, RBC Capital Markets

Okay great. Just one last question. Is there any update on, on the take back status, that you see anything occurring before year end at this point?

Mr. Jim Shepherd, President and Chief Executive Officer of Canfor Corporation

You mean the negotiation with government?

Mark Bishop, RBC Capital Markets

Bill 28, that's right.

Mr. Jim Shepherd, President and Chief Executive Officer of Canfor Corporation

Well in Canfor, like other companies in the province, we've been in a very long and arduous negotiation. You know, the money is one thing, but also it's the specifics around how we're going to work with government in a number of our tenures, so we are very close to finalizing a negotiation with government and then we have to either accept it or feel we have to go down the arbitration route. At this point, we are getting very close to a conclusion of that negotiation.

Mark Bishop, RBC Capital Markets

Okay. Thanks very much.

Operator

Our next question is from Daryl Swetlishoff from Raymond James. Please go ahead.

Daryl Swetlishoff, Raymond James

Well, thanks very much. Just on, on the Fort St. John and Polar Board OSB mills, could you please give us an update on the ramp up schedule that you expect to incur there?

Mr. Jim Shepherd, President and Chief Executive Officer of Canfor Corporation

In, in the case of Polar Board, I would expect the \$650 million annualized be attained early in the fourth quarter of this year. And in the full capacity of the OSB joint venture in Fort St. John, we put a very conservative start-up curve, I'm going by memory here, but I think it was 18 months that we wanted to give ourselves to go from initial board to full capacity of the 810 or 820 million square feet.

So, our hope is that we can do better than that, but we just wanted to make sure that we gave ourselves enough time, and 18 months is the, is the time frame. So, within the first two or three months, we'll be at 70% or 75% and then ramping up from there.

Daryl Swetlishoff, Raymond James

Okay. Switching gears a bit, aside from your capital upgrade plans, could you give us an update on how Canfor's board is currently viewing potential alternate uses of cash and what I'm getting at, or you know, maybe increase share buy-back or again, the dividend question?

Mr. Jim Shepherd, President and Chief Executive Officer of Canfor Corporation

The, the board had a fulsome discussion on the, the consideration of the dividend today, and the decision was to not reinstate a dividend at this time. Wanted to have full resources of the cash being reinvested into the company as well as considering other opportunities that Canfor may have in front of it. So the decision was day to day, not to reinstate at this moment.

In terms of share buy-back, the committee of the board is still functioning. We have a normal course issuer bid and the protocols and the guidelines around how to go, how to go forward and rebuy stock in Canfor is in place and the resources are there, with the right criteria. So this committee has got the whole mandate to complete and will be active at the right time.

Daryl Swetlishoff, Raymond James

So on the buy-back, there's been no change in the criteria that you're using to, to weigh how much shares you'd be buying back?

Mr. Jim Shepherd, President and Chief Executive Officer of Canfor Corporation

Well, the criteria's always sort of up and down. Looking at the business today and what the chances are of stock values and so forth, I think the, the difficulty of the board is, on the one hand to demonstrate strong support for the Canfor stock. And they want to be able to demonstrate that, that support by being active in buying. At the same time, they want to be good money managers and use the cash wisely. So, I think it's fair to say that this is a criteria that they review all the time.

Daryl Swetlishoff, Raymond James

Okay, thank you. I'll turn it over.

Mr. Jim Shepherd, President and Chief Executive Officer of Canfor Corporation

Thank you.

Operator

Thank you. Once again, if you have any questions, please press star 1 at this time. Our next question is from Patrick Wong of Seneca Capital. Please go ahead.

Patrick Wong, Seneca Capital

Yes, regarding the, the meeting next week in Ottawa, what's the nature of the discussion at this point? Is it about refund or is it about ongoing, going forward rates on lumber between Canada and the US? And also, could you comment on Mr. Gutierrez' comments last week that the negotiation is only prospective, not retroactive, meaning that there's no refund?

Mr. Jim Shepherd, President and Chief Executive Officer of Canfor Corporation

The meeting in Ottawa you're referring to is next time the two countries get a chance to meet face to face. Well, first of all, based on the comment in terms of refunds, my view is and our position in Canfor is that that money is Canadian money and all the duty deposits belonging to Canfor. And so, the goal of any negotiation is to instill in that negotiation and get our money back.

So, all the rhetoric that we hear around who's the money and who gets it, that's all to me a form of negotiation, because clearly, legally, this money is only a deposit duty and therefore, once this, this dispute comes to and end, that money should be returned to those rightful Canadian depositors.

In terms of the engagement in Ottawa, it's really getting to the next level to see if in fact there is an opportunity to find a solution here. The, the options are limited. People have talked about a number of solutions in and around a border measure or, or some sort of tax deal, and the expectations of east to west in Canada or with the US are still very, very wide, and therefore it's a question of trying to go down a very difficult path to see if in fact, middle ground can be found.

So, that's what I would see as the next step in Ottawa or any face to face talk. And there's a lot of elements to any negotiation. What it means to replacing the duties, what it means to enforce policy in provinces, what it means to duty refunds and what it means to protect the Canadian industry from having new cases filed in the near future. So there's an awful lot there that has to be resolved.

Patrick Wong, Seneca Capital

So the fundamental sticking point is the private ownership versus the public ownership of timberland between the two countries, and that's never going to be resolved.

Mr. Jim Shepherd, President and Chief Executive Officer of Canfor Corporation

There's two ways of looking at it. There is the, the charge of, of subsidization of Canadian lumber companies and that has been the official charge and therefore we get all this calculation around what that subsidy might be. We in Canada continue to insist that there is no subsidization in this country. And provincial policy is in fact mandated around getting fair value for the Crown and the timber that is in fact harvested.

I think that is the, sort of, official approach to the dispute, but the real approach to the dispute is to limit Canadian wood products from going to the United States and that hopefully, with the discussions, solve it.

Patrick Wong, Seneca Capital

Right. I thought the rates had been set for the going-forward rates on lumber imports. Is that still under discussion or it's not finalized or...?

Mr. Jim Shepherd, President and Chief Executive Officer of Canfor Corporation

No. It, it's one of those rates that is quite variable depending on reviews and reassessments of calculations and it's very difficult to predict what rates will be to, so it's, it's not a set rate, it's a moving rate.

Patrick Wong, Seneca Capital

Right. Why there's a difference between eastern and western Canada in terms of, you know, the, the lumber operations that warrant such a huge disparity in the discussion?

Mr. Jim Shepherd, President and Chief Executive Officer of Canfor Corporation

Well, I think it's a, it's a fundamental of forest policy, timber values. There is, there's a lot of illogic as opposed to clear logic in this dispute, very difficult to give you a clear answer because it's very unclear as to how some of this rationale is come to.

Patrick Wong, Seneca Capital

Right. Okay. Another question is how much of your pulp actually is sold into China? And could you comment, the Chinese buying behaviour and the Chinese re-evaluation would have an impact at this point or at what point would have the impact that increase the Chinese demand?

Mr. Jim Shepherd, President and Chief Executive Officer of Canfor Corporation

The, the market for Canfor pulp in China is, it's a good market for Canfor. We sell a lot of pulp on an annual basis into that market. We know the Chinese have a huge influence on not only the pricing of pulp because of their ability to buy or not buy, and, and for a number of recent months, they have not been buying, which has put pressure and increasing inventories and been a factor in lowering pulp prices.

When the Yuan was announced that it would be devalued from the United States currency, and although it was a very minor shift, immediately we saw an up, uptake in inquiry from China. In fact some buyers were quite anxious to lock in volumes at low prices, and we had not seen that level of activity for some time. We continue to see a very keen interest in China and I see at inventories are low, paper consumption and pulp needs are getting

strong in China and therefore, we hope to see some rebound in pulp pricing because of the Chinese demand.

Patrick Wong, Seneca Capital

Right. But long term right now, Chinese, China is a five million tonne market, and it's growing quite fast. Do you, I heard there's a mill, a pulp mill in Hainan Island that got shut down because of the shortage of fibre. And could you talk about the long term growth rate of that market and, you know, how big can it get? You know, five million's a pretty big base already.

Mr. Jim Shepherd, President and Chief Executive Officer of Canfor Corporation

If you don't mind, I'll answer this question and then if we could pass the phone on to others, and then we can always come back to some of the questions that you have.

Patrick Wong, Seneca Capital

Sure.

Mr. Jim Shepherd, President and Chief Executive Officer of Canfor Corporation

I see the, the continuing growth of pulp consumption in China as the economics and the, and the economic strength of the Chinese economy continues to build and grow. So, the question becomes how much supply and how much capacity will be built to meet that demand. So to me, with the type of pulp specifically in Canfor, the northern softwood kraft that we have and the need for that kind of reinforcing fibre in a place like China, I see a continuing growth going forward. At what rate? It may be difficult to predict, but we see a continuing growth year over year going forward in (inaudible).

Patrick Wong, Seneca Capital

Okay thank you.

Mr. Jim Shepherd, President and Chief Executive Officer of Canfor Corporation

Thank you very much.

Operator

Thank you. Our next question is from John Duncanson from Jennings Capital. Please go ahead.

John Duncanson, Jennings Capital

Thank you very much. Just had one question for you Jim, and I, I did, I've been on and off the call here. This question may have been answered already. Can you just give us an update on your Capex for what we should be using for this year or an estimate, and then any projections for next year?

Mr. Terry Hodgins

John, it's Terry Hodgins. I can answer that for you. Perhaps while you were absent on the call, I mentioned that for full year 2005, we expect to spend about \$320 million.

John Duncanson, Jennings Capital

Okay.

Mr. Terry Hodgins

And going forward for '06, while we haven't, at this stage, identified the specific projects, we are anticipating spending in the order of \$300 million in '06 and possibly

through 06-07 or a couple of years as we upgrade our lumber operations.

John Duncanson, Jennings Capital

Okay. I still list your maintenance, basic maintenance as about \$50 million a year. Is that too low?

Mr. Terry Hodgins

I think that's about a reasonable number.

John Duncanson, Jennings Capital

And your, I notice your depreciation. I was tracking it along. I thought it would have been coming in for the year about 165, and you're tracking at about the same as last year, 155. Any comment on that or am I ...?

Mr. Terry Hodgins

No, no particular comment other than I think perhaps the, the capital expenditures that we're, the major expenditures that we are making now, certainly we would not be depreciating as those assets have not come into production yet.

John Duncanson, Jennings Capital

Okay. And a last comment. Good luck in Ottawa, Jim.

Mr. Jim Shepherd, President and Chief Executive Officer of Canfor Corporation

Well thank you. It'll be nice to get this behind us. It's a big cloud over everybody.

John Duncanson, Jennings Capital

Stick with the 100% rebate.

Mr. Terry Hodgins

We could use the money.

John Duncanson, Jennings Capital

One of our CFO's back east is talking 75%, so, but he's retiring. Talk to you later.

Mr. Terry Hodgins

Thank you.

Operator

Thank you. Our next question is from Kevin Mason, Equity Research Association. Please go ahead.

Kevin Mason, Equity Research Association

Good afternoon.

Mr. Jim Shepherd, President and Chief Executive Officer of Canfor Corporation

Good afternoon.

Kevin Mason, Equity Research Association

A couple of quick questions. One with respect, if Jim if you could address, just back to plywood for a moment.

Mr. Jim Shepherd, President and Chief Executive Officer of Canfor Corporation

Yes.

Kevin Mason, Equity Research Association

On the marketing, I guess one of the expectations had been with the consolidation obviously amongst yourselves and Tolko and West Fraser, sort of the consolidation of the Canadian plywood industry, that the hope had been that some of the, the level of pricing, obviously not the premium levels we seen in the 03-04, but some of the higher type levels would be, sort of, carried forward into '05, but it really seems the bottom's dropped out. Canadians are exporting less to the US, which obviously means there's probably more product ending up in Canada depressing the prices.

But it seems to me, in talking to people, that there's, part of that is marketing strategy, and I wonder if you could address if there has been a change in your strategy or if you see a change in the marketplace that's caused this current weakness at this point in time?

Mr. Jim Shepherd, President and Chief Executive Officer of Canfor Corporation

I think the fundamental is there's just too much plywood out there, and so that's what's driving prices down. I can say in Canfor, what our approach has been to try to avoid to the middle man here and go directly to the, to the buyer and so I know there's a fundamental shift in the, the marketing practices that have happened in the past and we have recently signed a number of agreements with home centres, Rona and Home Depot, in particular Lowe's, to provide some panels into their businesses, which is new for Canfor. This has not been a tradition for us.

So we're going to try to skirt around some of the ups and downs and volatility of home building and get into the retail side of it with our panels. But I think the, the bottom's dropped out fundamentally because we've just

seen too much supply trying to be pushed into a market that can't take it.

Kevin Mason, Equity Research Association

And historically, there used to be, you know, kind of a rule of thumb of how much was shipped to the US, but with more of that obviously not getting shipped, maybe because of the Brazilian competition in the US. So the US is getting a little bit more competitive and pushing out the Canadian plywood. Is that sort of a way to look at it, why there's this sort of flood of Canadian plywood in the local, domestic marketplace?

Mr. Jim Shepherd, President and Chief Executive Officer of Canfor Corporation

I, I think that would be one of the factors. I think also with OSB being a preference in a lot of markets in the United States, Canadian plywood has had to struggle. And now we see ups and downs in this business, but I won't speak for others, I'll just speak for Canfor, fundamentally we have always believed that the Canadian market was the plywood market and had never really put that much into the United States. So what we're seeing is others keeping more in Canada here and it's causing the, the difficulty.

Kevin Mason, Equity Research Association

Okay. Just switching over to chips for a moment. Obviously, you're saying that going forward, we're going to see some of the benefits as these chip contracts are renegotiated from some of the historic formulas.

Mr. Jim Shepherd, President and Chief Executive Officer of Canfor Corporation

Right.

Kevin Mason, Equity Research Association

What, how should we sort of look at that as how we should expect that to roll in, if we take that number, the \$20 to \$25 per BDU, how should we see that roll in? is that going to phase in, you know, 25% a quarter over the next year, or what?

Mr. Jim Shepherd, President and Chief Executive Officer of Canfor Corporation

No, I think it'll be a little faster than that. Our chip inventories today in front of our pulp mills, I think on the outside, call it two months. It's a very high pile. We've had an increase in volume coming out of, say, just the Canfor mills and so, there's a correction in the, on the inventory in front of the mills, but I'm going to say as we enter the last month of the third quarter here, we're going to see the reflective lower price in the manufacturing cost of pulp.

And so, as we sort of go into the fourth quarter, the lower chip price will now be, be evident. So I think that's the way I would look at it and that's going to have a significant improvement to the manufacturing cost of pulp.

Kevin Mason, Equity Research Association

Yeah, good point. I guess one of the benefits of speaking on chip prices again, how, thinking on the Howe Sound operation. Obviously, that's one of the big detriments to that. Is there any look at or any closer to a solution on how you see dealing with the fibre issues at that mill at this point?

Mr. Jim Shepherd, President and Chief Executive Officer of Canfor Corporation

Well, we, we've got a problem at Howe Sound that, and I didn't mention it in my earlier comments. We are working very hard to find solutions. It's a combination of fibre cost, some of the marketing approaches as well as the debt level. And, the status quo cannot carry on, so there is an awful lot of effort as we speak going into a new Howe Sound that has to, in fact, be found or else the status quo cannot sustain itself.

So, whether or not this chip, the pricing decline in the interior will have any influence on that remains to be seen. By the time we get the chip from the interior through the port of Vancouver and up to Howe Sound, it, it adds a lot of cost to the whole process. But Howe Sound, as an entity, has to be dealt with.

Kevin Mason, Equity Research Association

Okay. One final, just quick question for Terry. Just in the press release, just in the initial text, it mentioned the after-tax amount for the FX impact of, on the debt of \$14.1 million but the line item was \$11.7, so I'm just kind of trying to reconcile those, if one is a misprint or if it was a, I just wonder what the actual after-tax impact would be for the, on the debt.

Mr. Kevin Clayton

Yeah, the after-tax, this is Kevin Clayton speaking by the way. The after-tax impact is \$14.1 million. There was an adjustment to the available capital loss pool available and hence, there was an actual add-on to the figure of \$11.7. If you look at note 10 in the financials, you'll see some more explanation behind that.

Kevin Mason, Equity Research Association

Okay. I never got quite that far. Okay, I appreciate that. Thank you.

Mr. Jim Shepherd, President and Chief Executive Officer of Canfor Corporation

Thank you.

Operator

Thank you. There are no further questions from analysts. We'll take questions from the media. Our first question is

from Arthur Williams, from the Prince George Free Press. Please go ahead.

Arthur Williams, Prince George Free Press

Yes, Jim, I have a question regarding the Prince George cogen plant.

Mr. Jim Shepherd, President and Chief Executive Officer of Canfor Corporation

Yes.

Arthur Williams, Prince George Free Press

I was wondering, you mentioned a projected savings of \$19 million for the, for the Prince George operation. How significant is that as a percentage of the overall operating costs of, in Prince George?

Mr. Jim Shepherd, President and Chief Executive Officer of Canfor Corporation

Well, it's a very significant saving. When you look at the energy costs of running these mills, I guess, I'm trying to put a relativity around it, how much does it cost to make a little over a million tonnes of pulp on an annual basis? You know, hundreds and hundreds and hundreds of millions of dollars when you have the fibre and labour and so forth, so on that scale, it may not look as significant. But in terms of our ability to reduce costs and where the opportunities to reduce costs, \$19 million per year is a very significant cost reduction for these mills.

Arthur Williams, Prince George Free Press

Excellent. Thank you very much. That was my only question.

Mr. Jim Shepherd, President and Chief Executive Officer of Canfor Corporation

Thank you.

Operator

Thank you. Our next question is from Gordon Hoekstra from Prince George Citizen. Please go ahead.

Gordon Hoekstra, Prince George Citizen

Good afternoon gentlemen. Another question on the cogen plant. What were the, the costs, how did the cost finally settle out on the, on the project, including the precipitator?

Mr. Jim Shepherd, President and Chief Executive Officer of Canfor Corporation

I think the original contribution from Canfor was around, I'm going back in history here Gord, too many numbers in my mind, just a moment, if you give me a sense what the original EAP was. I can tell you, we'll get the original number. I can tell you (end of tape) an additional cheque for about \$37 million because of the underestimation of the original project. And

Gordon Hoekstra, Prince George Citizen

Did that include, does that include the precipitator as well?

Mr. Jim Shepherd, President and Chief Executive Officer of Canfor Corporation

No. I'm trying to, I'm sorry, I'm getting some numbers. What I need (inaudible) is the, what is the Canfor commitment, not the BC Hydro (inaudible).

Gordon Hoekstra, Prince George Citizen

Alright, maybe I'll move on to another question while those numbers are being put together.

Now, did that, did the start-up of the cogen, has that allowed you to shut down some of your beehive burners? I think that was the original plan.

Mr. Jim Shepherd, President and Chief Executive Officer of Canfor Corporation

The beehive burner in, I know, Bear Lake is now shut down and I believe the beehive burner, trying to think now, Isle Pierre is shut down. So two or three, two anyway, beehive burners have shut down, and pardon me?

Unidentified Male

Potentially three.

Mr. Jim Shepherd, President and Chief Executive Officer of Canfor Corporation

Potentially three. So, Bear Lake, Isle Pierre are currently down because this facility is up and running.

Just back to your number, number question, Gord, the original Canfor announcement was at \$32 million would be invested by Canfor, combined with a prepayment of power cost by BC Hydro. But \$32 million was the original Canfor investment. We added to that \$37 million for the, the underestimation of the original scope of the project, and in terms of the precipitator, I think it was around \$16 million.

So, when you take those three numbers, 32 plus 37 plus 16, that's the total invested capital of Canfor into this project.

Gordon Hoekstra, Prince George Citizen

Can I ask another number question? You mentioned or Terry mentioned, on the cash costs of, on lumber there, driving it down to 107 or 108 per 1,000. Does that, does that include you know, your logging costs and

Mr. Jim Shepherd, President and Chief Executive Officer of Canfor Corporation

No. That's just

Gordon Hoekstra, Prince George Citizen

Transportation? That's just the manufacturing.

Mr. Jim Shepherd, President and Chief Executive Officer of Canfor Corporation

That's just once the log enters the mill and the amount of money we have to spend to convert it to lumber.

Gordon Hoekstra, Prince George Citizen

Okay. And, and whereabouts do your log, sort of your logging and transportation costs, how, where do they run about?

Mr. Jim Shepherd, President and Chief Executive Officer of Canfor Corporation

Well, they would be about double the net number I just gave you.

Gordon Hoekstra, Prince George Citizen

Okay. Final question. You, you're probably spending a lot, lot of money on Capex improvements and, as well as on your lumber and panel. With all the beetle timber

that's going to be available in the next several years, there are some companies that are looking at sort of other options, whether that's pellet plants and that kind of thing, perhaps even in the value added side. Is that at all part of Canfor's strategy or something that the company will be looking at?

Mr. Jim Shepherd, President and Chief Executive Officer of Canfor Corporation

We're looking at a number of value added opportunities and, and these, these, these will be carefully considered. Our primary objective is to get a very low cost, efficient lumber business in Canfor. So that will take the priority. But recognizing the amount of wood available on the near term is going to be in excess, I think, I think the caution here for Canfor, we're looking, first of all, we're looking at a number of smaller investments at this point.

My concern is that if a significant investment is installed and then we get through the beetle issue, whether it be 10, 15 or whatever years down into the future, what's going to happen to the competitiveness of the timber basket and can we in fact supply the needs of all these businesses, both lumber and whatever potential new investment goes in. So Canfor wants to take the short term view of taking advantage of the opportunity, but we also have to take the long term view that we don't kill the golden goose here. And, and put too much stretch on a timber basket that may somewhat be diminished.

Gordon Hoekstra, Prince George Citizen

One last final point on the, on those cash costs on the lumber side. Is that in Canadian dollars?

Mr. Jim Shepherd, President and Chief Executive Officer of Canfor Corporation

Yes.

Gordon Hoekstra, Prince George Citizen

Okay. Thank you very much.

Operator

Thank you. Our next question is from Allan Dowd from Reuter. Please go ahead.

Allan Dowd, Reuters

Yeah, just a follow-up on the talk having to do with the international paper assets spin-off. I recognize it's not been that long since IP announced its restructuring plan, but I didn't know if you'd had any kind of discussions with them, formal or informal, about your potential interest in their assets?

Mr. Jim Shepherd, President and Chief Executive Officer of Canfor Corporation

I believe that their timetable is, after the announcement, they're looking at, I'm going to use the term October, sometime mid-fall. They will have a more formalized process for outside buyers to get an understanding of the assets and what, what may be there. So, they haven't opened the door up to anybody. It's really just letting people get ready.

Allan Dowd, Reuters

Okay. And on Howe Sound, you're sounding a bit more dour on it than I've heard in the past. Have you set a timetable as to when this, I guess, latest restructuring of that operation would have to be in place?

Mr. Jim Shepherd, President and Chief Executive Officer of Canfor Corporation

Well, with the, with the debt on this facility, we have a timetable over the next couple of months that something has to happen there.

Allan Dowd, Reuters

Thanks. That's it for my questions.

Operator

Thank you. Our next question is from Paul Quinn from Salman Partners. Please go ahead.

Paul Quinn, Salman Partners

Yeah, sorry. Just a follow-up question, just on softwood talks in, in Ottawa. Are you bringing any Canfor proposals to that talk or it's, you're just there to listen or...?

Mr. Jim Shepherd, President and Chief Executive Officer of Canfor Corporation

Well, I, I don't go just to listen. I think, I think the subtlety of the negotiation is that what happens in the back room, Paul, is clearly a corporate position as well as a need to find that middle ground. So, positions from Canfor are being articulated and we've been pressing through our provincial government right through to the federal government. But, what I've always said is we have to keep our options open here.

There are limited opportunities to solve this. We just stay the course, fight them in the courts and see what happens. We either look at the border tax or there's always the options of core deals coming back into the equation here. And from a Canfor perspective, you tell me the number and we'll start considering what the options would be. And there's preference this year, depending on what the outcome (inaudible) to those number crunchings will show. So yeah, no, we're not there just to listen. We're there to try to drive a process, to see if we can find a deal.

Paul Quinn, Salman Partners

Okay, fair enough. Thanks.

Operator

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

Mr. Jim Shepherd, President and Chief Executive Officer of Canfor Corporation

Well thank you operator. It's Friday before a long weekend. I appreciate everybody taking the time to listen to Canfor's story. We have some challenges no doubt, from a marketing perspective and softwood lumber continues to be there, but in Canfor, we continue to go down the path and getting more efficient and lower costs which ultimately will be the cornerstone for our company building the future.

So thank you very much.

Operator

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