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PRESENTATION

Operator

Good morning, ladies and gentlemen. Welcome to the Canfor Corporation Third 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 third 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.

Forward-looking statements: the listener should refer back to the Canfor press release for all the caveats.

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

Jim Shepherd

Thank you, Operator. And good morning to everybody on the call. I'm joined this morning by Scott Wilson, our Vice-President, Finance and CFO. And this is Scott's quarterly call, and I'd like to say in front of you welcome to the company, Scott, and look forward to working with you going forward. As well, Kevin Clayton (ph) is here, our corporate comptroller.

I have some comments concerning the third quarter, and I'd like to pass it over to Scott for some more detailed analysis of the financial numbers that were presented in a press release issued last Friday, and then come back to some more overseeing questions in the... in the future of Canfor.

I think Q3 is... is best characterized as a disappointing quarter for us financially: sales of just under a billion dollars and a net income of 17.4 million, or 12 cents per share. A difficult quarter in many ways to describe. We had many unusual items that came into the numbers this time around, and some operational issues that certainly impacted the... the company performance. And overseeing all that was a difficult market environment, with pricing much lower than we've seen in a number of quarters prior to this one. But in terms of the... the one-off items, and Scott will give you more detail, we had (inaudible) foreign exchange on long-term debt, adjustments on taxes, as well as the closure of our Tackama stud mill, which has now been enacted, and we have taken full write-offs on that facility up in Fort Nelson.

We also had an unusual item of 8.9 million after tax or write-down of our timber licenses. And this goes back to the 20% tenure take-back that the BC government enacted a couple of years ago, and in their deliberations had valued the tenure on a per-cubic-metre basis. And Canfor has been into negotiations with the BC government for quite a lengthy period of time, and not so

much over the compensation of the tenure but in where the tenure was returned to the Crown. And so we've had various discussions around the regions of the province, and that is where the specifics of negotiation has been concentrating. When we finalize the geographics of where the tenure was returned to the Crown, the asset value on the books of Canfor for those particular tenures was then compared to the compensation and thus the write-down. And the tenures in large part that affected this number are in the northeast end of the province and the northwest, in transactions that occurred way back in the Northwood and even prior deals of... of the growth of Canfor. So it really came down to a massive write-down as opposed to any other implications.

In terms of the quarter, we had significant down time that was taken. We had a one-week shutdown of one of our pulp mills. We took down time at Fort Nelson for both floor board and Tackama to address some maintenance issues. And this, in some cases, wasn't planned, but we certainly did what we had to do to bite the bullet, and now both these facilities are operating at in fact record production rates. So hopefully that maintenance was well done and we can now look forward to a very healthy future up in Fort Nelson.

And we also took down time in a number of our sawmills, in part to address inventory levels. We made a concerted effort in the quarter to reduce inventories in all of... all of our product lines, and want to keep those inventories at a manageable level. We also had a number of occasions where, because of the market pricing of lumber, we shut down a couple of facilities to make sure that we managed our cash on a... on a very rational basis.

Also impacting the quarter, we had difficult times on the coast. Just the log market went into the tank, and in the same theme, we wanted to reduce our log inventories, so we operated very little time on the coast and, as a result, we had an operating loss there which was significant for us, and of course not intended when we sort of went into the quarter.

Finally, we had chip pricing, which was to reflect market pricing for chips, especially in the interior of British Columbia. All of our sawmills take the same chip prices we would pay any outside supplier. And so that adjustment of chip pricing, which has impacted negatively for the lumber division, has happened immediately, but the benefit to our pulp is going to take some time to work its way through, and so that whole fibre cost is now sitting in the chip pile in the process in the mills, and of course in pup inventory. We will see the benefit of that coming through in the fourth quarter.

Markets, as I said, were... were tough. Lumber was down, OSB was down, plywood was flat, and pulp was down. And combined with the strengthening of the Canadian dollar, it certainly had an impact on our... our mill net.

Overall, when the mills were running they operated quite well. We are seeing significant improvements in operations in all of our product lines, and hopefully this will bode well for the... the results that you'll see in the quarters going forward.

With that, I would like to hand it over to Scott to give some more detail on the financials, and then I'll come back and give some more comments on Canfor as well. Scott.

Scott Wilson

Alright. Thank you, Jim. I'm delighted to be a part of the Canfor team and part of the company that I believe has a unique and compelling vision for value in the forest products business. I also look forward to working with David Jan and Jim in communicating Canfor's performance and opportunities to investors and analysts. As Jim has again reiterated in his comments, Canfor's growth will be based on a foundation of highly competitive manufacturing. I'll now review how Canfor performed in the third quarter and indicate what we're anticipating for the balance of the year.

So starting with our lumber segment, it was negatively impacted by the triple whammy of lower US dollar product prices, an appreciating Canadian dollar, and lower production. The percentage reductions in Q3 versus Q2 and versus Q3 of last year are set out on the first page of the news release, and the actual values can be found in the quarterly MD&A. Canfor produced 120 million less boards feeded lumber in Q3 than Q2 of this year. This reduction is partly due to the sale of Hines Creek, as well as the permanent closure of the Tackama sawmill in Q3. By the way, there was a three million pre-tax charge associated with the Tackama closure. The balance of the production decline was primarily due to curtailment at Grande Prairie, Fort St. John and Vavenby, as well as reduced production at our Plateau mill due to the rebuild that was in full swing during the quarter. While these mill shuts and curtailments, for either maintenance or inventory rebalancing purposes, caused short-term productivity and cost comparison negatives, they demonstrate Canfor's discipline with respect to operating profitability. And as Jim noted, we are continuing to work very hard to identify cost and revenue enhancement potential at each mill.

The lower production impacted our cash conversion costs, which were up about \$6 per thousand board feet in the quarter over last quarter. Although lumber production is not anticipated to change significantly in Q4 versus Q3, we do anticipate an improvement in cash costs.

Canfor did experience higher energy costs in this segment in the latter part of Q3. However, the increase was mitigated by gas hedges in place. We have almost half our anticipated energy costs for the upcoming winter locked in at favourable prices.

Lumber recovery and log costs were better in the third quarter versus the second quarter, despite slightly higher average stumpage costs. A steady increase in lumber recovery is anticipated from the investments Canfor is making to upgrade technology in its mills.

We made real progress in the quarter with lumber inventory, as these came down 90 million board feet from June 30th. With prices trending downward, we believe this reduction has been prudent. Interior log inventories are building again seasonally.

One final comment on the lumber segment relates to the changes in chip pricing that Jim noted earlier. As disclosed in the MD&A, this caused third quarter results within lumber to be negatively impacted by approximately 13 million. There is also an inventory impact that will be realized in the fourth quarter, which, for lumber, is expected to be approximately 9 million negative. However, as Canfor is a net buyer of chips, we will benefit on a consolidated basis when this... when these inventory impacts work themselves through sales. The beneficiary is the pulp and paper segment, and I'll touch on that shortly.

Turning now to panels, we recorded about 8 million lower income than in Q2, despite higher shipments of both plywood and OSB. The average OSB price declined 8% in the quarter, and that, combined with higher conversion costs, caused the profit decline. Unit costs were impacted by lower production from Tackama plywood, where we had nine days of unscheduled maintenance. That mill is running very well now, with mill nets running about 7% ahead of last quarter's average.

As you know, we completed a capital upgrade at the Polarboard OSB mill in Q2 for new flake dryers, and had 2.2 million of undepreciated capital costs to remove from the books for the old dryers. The conversion costs at Polarboard were up 5% in the quarter due to higher maintenance spending associated with the new dryers.

The dryer issues we've had there are resolved, and production is now running slightly ahead of plan, so we're able to take advantage of the favourable current pricing for OSB.

We are anticipating a strong quarter for our panel segment due to the increased production and sales at better pricing than we experienced in Q3 for both plywood and OSB.

Turning now to pulp and paper, we had another loss quarter due to the reduced price for pulp. Production was consistent with last quarter, at just under 300,000 metric tonnes, despite the down time that Jim referred to. The 7% lower sales list price in Canadian dollars more than offset the benefits of lower fibre and conversion costs.

The benefits of the lower chip cost to the pulp and paper segment will be primarily realized in Q4. As noted in the MD&A, there was a 7 million benefit realized in Q3 from lower fibre costs, and there's another 16 million in the chip and finished pulp inventories that has yet to be recognized in Q4. As I noted earlier, Canfor is a net chip buyer, in the range of 300,000 ODTs annually. Using \$40 per ODT as a rough guide to the reduction of interior chip prices yields approximately 12 million per year pre-tax benefit to Canfor. Due to various chip purchase and sale arrangements still being worked through Canfor's business, you won't necessarily see this benefit evenly over a year, or immediately. However, it's an indication of what we think the net benefit will be.

The pulp and paper segment also benefited from energy costs being one to two million lower in Q3 versus Q2. As we indicated last quarter, the full benefit of the PG turbo generator won't be realized until mid first quarter 2006, when the precipitator installation is completed. Having said that, we are anticipating a good fourth quarter from pulp and paper due to recent price increases in both the US and in Europe, as well as lower fibre costs.

With respect to Canfor's coast segment, production was curtailed for just about all of Q3. Inventories were reduced 56% at average selling prices 26 below those of Q2. Our corporate segment is running as expected, with slightly lower costs than last quarter.

I'll... I'll now highlight a few other matters impacting our financial results last quarter. Several of these are noted on the second page of the MD&A, and Jim and I have referred to a couple of them already.

Net one-time tax impacts were 13.3 million favourable, primarily due to the reduction in the BC corporate tax rate. The translation of our US dollar debt produced a

24.7 million favourable net income accounting gain, including the gain associated with the... with US 31 million of debt that was scheduled for repayment in the quarter and that was not reborrowed. At quarter end our net debt stood at 14% of capitalization. With the receipt of 62 million from the BC government shortly from the timber take-back, our strong financial position will further improve.

Canfor paid US 47 million of duties to the US government in Q3, which brings our total duties paid since May 2002 to US \$699 million.

In the third quarter we repurchased one million shares at an average price of \$13.84 per share.

Before I turn it back to Jim, I'd like to update on our capital expenditures. We've invested 85 million into the business in the third quarter, in line with the 335 million we are expecting for 2005. Of this amount, approximately 50 million is for maintenance. Over the next several years this 300 to 350 million level of annual capital expenditure can be expected. We will apply critical review to all potential capital expenditure in Canfor. This will include a thorough risk and discounted cash flow analysis, and the use of conservative pricing assumptions. There is considerable opportunity for profitable investment and organic growth within Canfor's business. These opportunities are varied, and include, among others, projects to replace natural gas with wood waste, the automation of lumber grading and log rotation, and investments associated with the optimization of mill process flow. There are additional organic strategic opportunity such as the Plateau mill rebuild, however we'll be very prudent regarding the timing and scope of our capital investments. And importantly, we will first scour all the non-capital opportunities. Our objective is to have low-cost, competitive operations, and this will be a significant focus as we develop our 2006 plans. Jim, back to you.

Jim Shepherd

Thank you, Scott. I'd like to start with just a brief update on some of our significant capital projects, and I'll start with the cogeneration facility in Prince George. This plant and the generator started up, and it's been running extremely well since putting in the service, and we've been averaging over 37 megawatts with the capability of going up in the high 40s. It's limited right now because of the... of the precipitator project that is not expected to be completed until the first quarter of next year. This particular project is going extremely well, and at this point we have no reason to indicate why there'd be any delay.

Once completed, the mill will be up to its full production, and that will allow for increased power generation with the current generator.

Our Peace Valley OSB plant in Fort St. John is getting very close to start-up. It's a... it's a very large and, I think, extremely well built mill. We've had some challenges with tradesmen and we've had some challenges getting things like steel and particular components because of the high demand for those kinds of service in the construction industry today. But we do expect the first board to come off in the first or second week of November, and we're very much looking forward to seeing this mill up and running. The crews have been hired, the management's in place. Everything is ready except tightening the bolts and putting in the final wires, so hopefully in a week or two we will be able to announce that the mill is up and running.

And our Plateau sawmill rebuild is going extremely well. Eighty-one percent of the projected funds have been committed, and so far everything has gone on schedule and the mill's starting to look different, as the new planer mill is nearing completion, and also we have a number of new components on the sawmill already. So our expectation is to have this particular project finished late this year, going into the early part of 2006.

Just to repeat what Scott was alluding to, we have announced significant capital expenditures in Canfor going forward. And it's really based on well known methods in the industry. So yes, we want to reduce energy costs. Yes, we want to reduce fibre costs by increased fibre recovery. Yes, we want to reduce conversion costs. And part of that is... is productivity and making sure that we have the right fibre flow going through the mills. And of course a big part of Canfor's strategy is to make sure that we have the right products for the right customer. And so a lot of what we are intending to spend on is the... the automation that goes into board grading and making sure that we have the right product mix for... for a changing market. So it's not something that's risky; it's just a matter of putting in the money and delivering on the expectations.

And we will be very, very prudent. Market conditions will change, and we have to make sure that we have the right financial discipline to put in the... the capital projects that we will feel will have a return to the shareholder.

At the same time, we're putting an awful lot of effort in the people development and non-capital items: quality control, statistical analysis, making sure that we have the right understandings for the whole process. And not to say that we haven't done it well, but there always can be

improvement. So a great deal of effort is going into that aspect as well, and we do expect better performance out of our divisions going forward, especially on the lumber side.

In terms of the... the market outlook, we're going into the winter doldrums, so we have seen the odd spike in lumber over the last number of weeks but we do expect the market to be relatively flat between now and the end of the year. And in part because of the... the hurricanes in the southern part of the United States, there has been a slight in-panel prices, but that... they're starting to level off. But as Scott mentioned, we do expect a much better performance from the fourth quarter from our panel divisions, both on the operations side, productivity, costs, as well as market pricing.

And as we exit the year, and going into the new year, I do expect a relatively stable market, especially on the... on the housing sector.

Pulp always seems to have fits and starts, and so we did announce a \$20 per tonne price increase. There has been push-back from the Chinese, and we certainly have half of that, the \$10 set in the marketplace, but we'll push very hard to get the other increases as we go forward here. And based on the reduced fibre costs, reduced energy costs, improved productivity and improved pricing, we do expect a better performance in the fourth quarter from our pulp mills.

In terms of down time in the fourth quarter, it's going to be minimal. We do have some down time at the Intercon pulp mill, three and a half days for maintenance. And that has been scheduled, and we will go through that. But other than that, most facilities are going to run pretty well full out. We'll assess each and every facility as we get close to the end of the year, depending on market pricing, on the costs of that facility, and will make decisions in around the operations, especially over the Christmas holiday period.

And of course on the coast, with our coastal logging, we are operating today but looking at those numbers very carefully, and we'll only operate with the mixed financials out from the company.

In terms of the coast, we recognize that both on the market logging side, and this is the (inaudible) into Howe Sound, as mentioned in the last quarterly call, the status quo cannot remain for Canfor on the coast, and we continue to explore opportunities and changes for the... for the businesses of Howe Sound and coastal logging, and are working very hard with financiers to solve some of the financial difficulties there.

Just a brief comment on stumpage increase, and especially around beetle wood. A large part of the log mix coming into Canfor mills today is beetle affected wood. Certainly this is a part rationale around some of the capital spending to make sure that we can get value out of the beetle affected wood. But there is expectation that price... stumpage prices will increase, especially around the low grade of logs, and the Government of BC is working with industry and looking at an overhaul of interior timber pricing. And it's too soon to say just what this will mean to the company and... and how in fact log pricing will change going forward. But it is fair to say things are going to change. And... and working with government, it's very important for us to have the right matrix and competitiveness that will remain, especially for the BC interior.

This of course was all in expectation of being in a package to help with the trade file, and it's... it's not clear to me just what or any influence timber pricing changes in the interior of BC will have on the trade file. At one point it was thought to be a relative split. As events have unfolded here, I don't think it's of interest to the United States, and certainly from US industry, what we do. And so what we have to do in terms of stumpage is to look after our own competitiveness and the true value of that wood in relation to the business that we're in.

In terms of the trade file, a recent non-decision, I guess is one way to put it, on the... the NAFTA process, we were expecting to get a decision on Friday out of the CBD rate. It was learned on Friday that this decision was been delayed, and... and so it's unclear to me at this point just what that really says to the Canadian industry. And... and I think, as another aspect of this, the politics of softwood lumber is driving the decisions, not the mechanics or the legalities. And as we see the rhetoric rise, as we have seen this whole problem elevated to the highest level of both countries, both Prime Minister and President, it illustrates just how far and how deep softwood lumber has gone to impact the relationship between our two countries.

I will say, in terms of softwood lumber, that the politics and the issue of... of the... of the whole NAFTA trade relationship that we have is really the core of the dispute. And... and that is what has to be solved in terms of us going forward, and issues around stumpage or industry reform have been, I think, a side issue. So it's unclear at this point in time just where we're going, but obviously with the federal government engaged, where... where in fact it should be, hopefully we'll see some break in the stalemate in the near term.

We also announced in our press release a reinstatement of the share buy-back. We now will be applying for a normal course issuer bid. And this is always in the... the best interests, as we see it, on the financial use of our cash and the best return to the shareholder. So we will have the ability to repurchase up to 5% of our outstanding common shares.

So just in summary, and then I'd like to open up for questions, going forward we do expect better operations... operational performance in the fourth quarter, and we'll fairly focus on those things that we can control. And a lot of good work is going on in Canfor. And... and now it's time to demonstrate that good work will in fact deliver improved performance. And my hope is that the numbers going forward will start showing that. Clearly we need to have lower costs, better productivity, and better financial performance. We also expect to see some stability, in fact some improving markets in the fourth quarter in panels and pulp, and that will bode for a better fourth quarter as we see it today. And we want to manage the business for the long term, making sure that we don't take shortcuts and try to do something that'll give us a... a... sort of a short-term indication that's not sustainable. And for me, it's important that Canfor looks to the long term and has that reputation of one that has certainly got its mills in top condition, its marketing plan the appropriate one, its cost control in place, and the financial performance that you can rely on.

So with that, Operator, I would like to hand it back to you, and if we could open up the phones for questions.

QUESTION AND ANSWER SESSION

Operator

Thank you. We will now take questions from analysts and investors. If you have any questions, please press star one on your telephone keypad. If you're using a speaker phone, please lift the handset and then press star one. If at any time you wish to cancel your question, please press the pound sign. Please press star one 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.

The first question is from Chris Willis from Impala Funds. Please go ahead.

Chris Willis, Impala Funds New Canaan

Good morning. I have a couple of questions. I was just curious, when you mentioned that you were going to get the 62 million from the tenure take-back short term, I'm assuming that's a fourth quarter development?

Jim Shepherd

That's correct.

Chris Willis, Impala Funds New Canaan

OK. And then second, with the... the chip pricing off and lumber prices weak, have you seen any signs at any sort of... if I can call them lumber-only operations away from you starting to really come under a lot of financial pressure? I mean, is there any hope of a capacity rationalization?

Jim Shepherd

I think it's an industry that continues to run even though it doesn't justify the financials. I hope there is discipline out there. If you take the past year, Canfor has either exited or shut down six sawmills. One in Fort St. James, maybe not appropriate here because it was a requirement of the Competition Bureau, but I mean, there's five mills in Canfor's world that aren't in the company today, and three of those mills were actually shut down. So that's the kind of discipline I would like to see in the industry. But when you have cash histories such as milled to the butt logs and have to convert it into money, or just to hope things will get better in the spring, but history shows that the discipline is either slow to happen or doesn't happen at all. And I would hope that other companies would do the same as Canfor and just be able to (inaudible) tough operations. And... and the industry (inaudible).

Chris Willis, Impala Funds New Canaan

OK. And the last question, I guess if you're willing to spend a billion dollars in capital on your lumber business, I'm just curious why you're not being more aggressive on your share repurchase, given that your market, sort of net of the duties, hopefully you'll get them back at some point, but it's... you know, that... it's down to a little over a billion dollars on a net basis. I'm curious why your stock isn't viewed sort of more favourably, given the dramatic decline over the last six to nine months. I would have thought you might have been a little bit more aggressive in terms of repurchasing stock.

Jim Shepherd

Well, a lot of this is a board decision, and it comes back to the competition that we have for cash. I can't answer on the track record. We do have the ability to buy... buy back up to 5%, and we review that on daily basis. So I guess we'll let the future go here, depending on share values and what we see the alternative use of cash.

Chris Willis, Impala Funds New Canaan

Alright. I guess what bothers, it would seem it's a pretty... I mean, if you're going to sink that much capital into the existing operations, why at these levels... I guess I struggle with why the board isn't more excited about your stock price on the existing Canfor assets, given the decline, particularly post merger, where you're basically back down to where you were almost a couple of years ago in terms of stock prices. And I guess I'm... I'm curious what I'm missing in terms of why the stock isn't more attractive, and given your... your balance sheet position in particular.

Jim Shepherd

Well, I think the stock is a great buy. And you know, the... the limitation we have is up to 5%. We have not been all that aggressive in the past, and I guess we'll have to watch here going forward, Chris. But again, it's a... it's a decision that's sort of rationalizing the use of cash, and we will be buying shares on an appropriate basis.

Chris Willis, Impala Funds New Canaan

Alright. Thank you.

Jim Shepherd

Thank you.

Operator

Thank you. The following question is from Mark Bishop from RBC Capital Markets. Please go ahead.

Mark Bishop, RBC Capital Markets Vancouver

Thanks. A couple of questions. First, Jim, just on the down time, there appeared to be several cases of down time that we were not aware of in the quarter. Typically, I guess, you've given us heads-up on what you expect to see on the pulp down time. Many of your competitors -- most of them, I think, in the panel side -- publicly declare when they're going to take down time in their OSB mills. OS... or lumber's a little different, but clearly there was more down time than we expected. Could there or would there be a policy going forward of providing a little more heads-up to the street as to the down time you're taking?

And then also related to that, has there been a change in your strategy with... with respect to taking market down time? Obviously you took some in this quarter. And does that maybe indicate you're... you're higher cost than... than you anticipated, given that some of your competitors who should be higher cost have not taken down time?

Jim Shepherd

Well, of the two questions, Mark, I will say on the first one, you know, we do provide guidance. I think your point is well received here. Is more guidance required, and can we in fact give you more heads-up? Sometimes these decisions are made relatively quickly. And as an overview or a policy in the company, we will not lose cash. And so sometimes decisions are made depending on market prices and so forth, and... Anyway, I... I think your point's well taken. And can you as an analyst have more of a heads-up to what our plans are in the company, and we'll reflect on that, and we'll get back to you.

In terms of the cash, you know, things do change here. Just for example, the log pricing, with the beetle impact and the water bedding effect still in the stumpage system in BC, and so some of our down time related to higher log costs because of the way the stumpage system works, and sometimes you can't predict that. So as we went into the third quarter, we just made the decision, for example, in Fort St. John that when you looked at the fibre costs, the mill conversion costs, which are not all that bad, but based on the prior more expensive log, with market pricing, it was deemed appropriate to shut down, and... and we took three weeks there.

So I guess we look at this as a... as a sort of conditions of the world type thing, and depending on markets and costs, but that's why we are doing what we're doing in Canfor. We don't want to be running mills on an intermittent basis. We want to be running mills only because they are very, very cost competitive. And so we're just going to have to get through what we've... the

journey that we've embarked upon here to get these costs down.

But the biggest cost in producing lumber is the log and slash the fibre recovery. And if you have a (inaudible) expensive log, then sometimes market conditions don't justify running that mill.

Why others may in fact continue running, it's certainly for them to decide. But as I said earlier, sometimes there's a lot of reasons outside of the immediate cash component, and... and history says that sometimes, you know, if they see this as just an intermittent two or three week blip, they'll just keep running right through it.

Mark Bishop, RBC Capital Markets Vancouver

OK. I... just a question on your CapEx program. Clearly you're committing a significant amount on the sawmills going forward in the next couple of years. We had expected, I guess, to see a relative improvement in your margin performance vis-a-vis some of your better, more competitive competitors, and so far that hasn't come to pass. I'm just curious... obviously you expect to see that at some point going forward, but have you built any incentives within your senior management team around some very direct accomplishments against that progress? And could that be a way maybe to... to move the dial a little quicker?

Jim Shepherd

Well, I have many things that I do when I come to work in the morning, but there are very few priorities over the one you just alluded to: how do we make our business the most competitive out there? So yes, we have incentives built into compensation for decision makers who run these businesses, so that clearly they have incentive to do so. And... and when you look at the third quarter, sure, you can take the down time or you can take some of the working capital adjustment that we try to do, some of the write-offs, but every quarter it's really, really an anticipated number: how well have we done relative to our competitors? And... and I come back to the highlighted word here (inaudible) disappointing. We will make progress. And... and we will in fact make our mills more competitive. And I guess it really comes down to the numbers. We just have to prove it to you that we can do this.

And it's not... it's not rocket science. We know where our fibre recovery is today, we know where we have to get it to; we know what our energy costs are today, and we

know what we have to get to. We have built in a good marketing plan. So to me, it's just execution really. And when we talk about capital spending, we don't want just to have shiny equipment; we want really performing assets. And every one of our decisions, even though the dollars sound high, is on the basis of good returns. So I do believe we will get there.

Mark Bishop, RBC Capital Markets Vancouver

OK. Thanks, Jim.

Jim Shepherd

Thank you.

Operator

Thank you. The following question is from Don Roberts from CIBC World Markets. Please go ahead.

Don Roberts, CIBC World Markets Inc. Ottawa

Yeah, several questions. Jim, could you give us, again... I know you don't know the full details on this April one stumpage changes, but are they still looking at this... you're looking at not only the increase in the... in the beetle wood price but a decrease in the green wood. Now, having said that, does the government sell this like they're going to be revenue neutral on this move, at least on a regional basis?

Jim Shepherd

I... I... I... it's speculative, I'll say, to start, but I... I would say overall yes on what they're talking about doing here. And I... I think if you look at a big picture Canfor, we will see an increased cost of some in some of the beetle infected regions, but we will see reduced costs in non-beetle affected regions, so places like Mackenzie, Fort St. John, Radium, they will all benefit from what the government is planning to do. So I would say revenue neutral is a good way of looking at it, Don, but I'm not sure if that's exactly the outcome here, because it's not quite clear to me what the overall timber pricing changes will in fact be and how that will relate to the overall revenue source for the Crown.

Don Roberts, CIBC World Markets Inc. Ottawa

And could you remind me that... again (inaudible) 25% is roughly beetle wood, what is it specifically for you? Are you around 35 or is it 40?

Jim Shepherd

I think we're officially around 26% right now.

Don Roberts, CIBC World Markets Inc. Ottawa

OK. OK.

Jim Shepherd

And... and of course that... that does impact on an operational sense as well. So for a log, we say wow, you've got a 25% stumpage log, but let's remember that log is dead. And so the... the quality of logs coming in impacts all sorts of things, from fibre recovery through the grade out-turn. So I would say the appropriate value might be 25 cents. So the question now is how do mills respond, and that's again a reason for some of the capital upgrades, so we can get more... more out of that log.

Don Roberts, CIBC World Markets Inc. Ottawa

And when do we... when do you really expect to get clarity on this?

Jim Shepherd

I... I would like to see clarity as soon as possible, but I know the government's working very hard. They're working to try to do something by April first, not only on identifying timber pricing but impacting on the low grade... or the low... the value of the low grade. So I... I... I guess over the next number of months we'll see a lot more in terms of details, timing, and what the impacts will be (inaudible).

Don Roberts, CIBC World Markets Inc. Ottawa

OK. Second question. On the... I know the... you know, how (inaudible) sales are linked because they're tied on the... on the log flow. But is the sale of one really

contingent upon the other, or when can we expect this... I guess...?

Jim Shepherd

Well... well, in some ways they're tied together. So it's not a matter of solving one without impact the other for me. And so for me, a Howe Sound solution has implications in Inglewood. And that's what's taking time here, to make sure that we have the right answers on the coast. Because if we do them separately and without any involvement from either of them, then it might be a different story. So... so there is a tie (inaudible).

Don Roberts, CIBC World Markets Inc. Ottawa

OK. And I'll go back to the end of the queue after the... after this next question. But for... on the plywood, you... you sound kind of more optimistic than I maybe thought you might. You know, we're looking down in the US south, Brazilian wood coming in to... it's about a 60 to \$95 a thousand square foot discount to local mills, and then... then you've got to deal with the Canadian dollar as well. I guess what's your sense on the plywood side? How much is this CapEx is going to be... Do you just run these for cash going forward and let them die?

Jim Shepherd

Yeah, very little CapEx is going into the plywood. If we... if anything, we... we do have some energy cost opportunities, especially in our VP(?) in Prince George. But I... I'm optimistic on plywood for a couple of reasons. First of all, most of our sales are in... in Canada, so we're not impacted by currency and we're not dealing with some of those competing southern mills. And so it's... it's across Canada that the plywood market really has its strength. And the other is... and especially at Tackama, which historically has been a relatively high cost mill, we've put in a new lathe four or five years ago, we've put in the new dryer technology. We've actually put money into that Tackama sawmill. And it's not until recently that everything's starting to click. And we've got new management there, we've got a good working relationship inside the mill. And so optimistic in part because of the market and the Canadian component, but also the... it... my expectation is the cost impacts are going to... are going to come down significantly, just by productivity, better fibre recovery, and better quality coming out of the mill. And so, again, I hope the numbers prove I'm right here, but that mill has never run better since my time (inaudible).

Don Roberts, CIBC World Markets Inc. Ottawa

OK. OK. I'll get back at the end of the queue. Thanks.

Operator

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

Paul Quinn, Salman Partners Incorporated Vancouver

Yeah, thanks. Just following up on Mark's question on maintenance. Have you... have you changed sort of your maintenance outlook on the pulp and paper side? And... and could you sort of describe which mills you've got... or you know, scheduled for maintenance in 2006? Which quarters they fall in?

Jim Shepherd

I don't have the schedule in front of me, Paul. What I'd like to do is get back to you. We'll have the regular scheduled maintenance expectations in 2006, but I don't have those dates (inaudible).

Paul Quinn, Salman Partners Incorporated Vancouver

OK. Then just to clarify, the... the three and a half days in Q4 for Intercon, that's already been taken, right? At the beginning of October?

Jim Shepherd

Yeah.

Paul Quinn, Salman Partners Incorporated Vancouver

OK. And question on... in terms of running PP, pulp and paper, as sort of not... not full production because of the precipitator issue, what... what's the lost production on... on pulp and paper due to that?

Jim Shepherd

Around 200 tonnes a day, all in the pulp plant.

Paul Quinn, Salman Partners Incorporated Vancouver

OK. And just on the share repurchase, in... in terms of your last normal course bid, did you max out on that program?

Jim Shepherd

No. We had the ability to repurchase up to seven million shares, but we only impact... we only repurchased one million.

Paul Quinn, Salman Partners Incorporated Vancouver

OK. And... and since... well, I guess your... your new bid has been place.

Jim Shepherd

We've made application to the authorities who make these decisions, and we expect approval by written.

Paul Quinn, Salman Partners Incorporated Vancouver

OK. In terms of the... the Port of Vancouver strike, can you quantify, you know, what... what that cost you in the quarter?

Jim Shepherd

I would say one to two million dollars probably on a... on a net income basis.

Paul Quinn, Salman Partners Incorporated Vancouver

OK. And just lastly, just on Howe Sound, what... what... if... if you could sort of describe some of those options, in terms of what... what to do with that and what to do with Inglewood.

Jim Shepherd

Well, I don't want to be sort of talking too openly here, but when you look at Howe Sound, which is... it's a great pulp and paper mill, particularly the... the (inaudible)

machine is... is world class, the pulp mill, recovery boiler, it's very competitive on the Canadian sense. So what is the problem? The problem is it's got too high a debt, and that has to change. It also has a relatively high fibre cost, in part because of the component of fibre going into Howe Sound comes from whole log chipping. And we've already enacted a strategy of removing newsprint from the Japanese market, which is over supplied, and on a relative financial basis the mill net out of Japan is less than we had in alternative markets. So in... in an overview, if you had the right fibre cost, the right financial structure, and the right marketing approach, this mill could be very, very competitive vis-a-vis its competitors, especially in western Canada. And so, as an overview, that's what we're attempting to do here. So it's... it's a complicated thing, especially when you have to tie it to Inglewood. And... and if you go back to what Howe Sound as a project, when that mill was rebuilt, we had the big Ebert (ph) sawmill, here in Lower Mainland. And a lot of the residual wood that was to come out of that mill was to be the fibre source for Howe Sound, and that all changed when Ebert shut down, their dependency on... on whole log chips really increased. And so now we are dealing with a very tight market on the coast. Even though we can get chips from the interior, on a relative cost basis it still makes fibre very, very expensive. So we just have to find cheaper fibre (inaudible).

Paul Quinn, Salman Partners Incorporated Vancouver

OK, great. Thanks.

Operator

Thank you. The following question is from Daryl Swetlishoff from Raymond James. Please go ahead.

Daryl Swetlishoff, Raymond James Vancouver

Oh, thanks, and good morning. Jim, you... I can understand how the April first upcoming stumpage changes might be a bit of a mystery, but perhaps you could give us an order of magnitude impact of some of the changes that happened on... on August first with respect to beetle wood. Is it a dollar a cubic metre? Is it less than that? What do you think it would be?

Jim Shepherd

In terms of the question, like had the same changes happened October first, or what... what actually happened October first?

Daryl Swetlishoff, Raymond James Vancouver

No, I... I understand how October... sorry, August first, in terms of the beetle changes that... that happened on the terms of beetle stumpage of pricing, can you quantify the impact that happened already on August first?

Jim Shepherd

Well, I think we went from 25 cents to two dollars. Is that what the price was around?

Daryl Swetlishoff, Raymond James Vancouver

Right.

Jim Shepherd

And about 20 to 26% of our wood coming in, so... I hate to discuss (inaudible) on the phone here, Daryl. Maybe we could get back to you. But in a... in a rough sense, we bring in probably... I... I'd... I'd better get back to you, because you know, I could sit here and muse on it, but... we're writing down the question. We'll... we'll get back to you on the volume of beetle wood we bring in and what that impact has done in terms of overall fibre costs.

Daryl Swetlishoff, Raymond James Vancouver

Great. Thank you. Could you tell us the... you mentioned you reduced lumber inventories about 90,000. What would lumber inventories currently be sitting at, approximately?

Jim Shepherd

Ninety million and... so what's our current lumber?

Scott Wilson

Well, we're in the range of about 500 to 600 million, Jim, but I think we'd be able to be more specific on... on... on... on that.

Jim Shepherd

OK, Daryl?

Daryl Swetlishoff, Raymond James Vancouver

Five to six hundred million?

Jim Shepherd

Right.

Daryl Swetlishoff, Raymond James Vancouver

Right. Thank you. Finally, you gave us some colour on the pulp market in China. I was wondering if you could give us a little... same sort of discussion on... on what you're experiencing right now in Europe.

Jim Shepherd

Paper markets are relatively good, but they're the ones that are pushing back on the price, increase, and therefore the... the \$10 as opposed to the 20. So I think it's just the... the test of wills here between supplier and customer. So we know there's a demand for the pulp, and.. and it's just a matter of trying to get the right numbers for customers that are always looking at currency and making sure that they have the true market value for this stuff. But Europe, in terms of market, it's... it's strong, but... but we're just having difficulty instituting the price.

Similar story in the United States. In fact, they're watching very carefully what happens to Europe. But we've had good demand for our pulp. In fact, we've got more and more strength in that marketing side. Especially with some of the uncertainty back in eastern Canada, we're finding an influx of customer inquiry into Canfor, which to them appears to be a longer term, more stable supply.

So volume is not the issue. We're sold out. And... and so the question is just how the overall global market here is going to impact on pricing. China is just going to get the same, and we believe that, you know, the overall demand for pulp is strong enough that we will see further price increases going forward. But it's always a tough sell.

Daryl Swetlishoff, Raymond James Vancouver

Great. Thanks for that.

Operator

Thank you. The following question is from Mark Bishop from RBC Capital Markets. Please go ahead.

Mark Bishop, RBC Capital Markets Vancouver

Thanks, Jim. Just two follow-up questions. First off, on the stumpage, the increase you mentioned to two dollars, we're hearing that there... there may be a potential for another interim increase in January of that two dollars to a... to a higher level, but before the April first implementation of the new log rate. Is that something that does have potential?

Jim Shepherd

It does, Mark. And... and one of the very strong messages to our government is that the beetle wood is tough to handle. And you know, they can incent people not to harvest beetle wood if they go through (inaudible). So they're... they're contemplating this. They do expect that there's more value there, but at some point they'll cross the line and companies are going to say well, why do we bring in that stuff? Why don't we just go for green logs? I mean, overall we can get a better bottom line. So my hope is they don't go too far.

Mark Bishop, RBC Capital Markets Vancouver

OK. And just on the... on the Howe Sound issue, you mentioned that Howe Sound is doing a lot of whole log chipping. The... the wood fibre cost problem historically, I understand, has been a problem. Today, though, can Howe Sound essentially whole log chip for an economical level? It... it appears that some of the other coastal operations are whole log chipping for the same price as they can get residuals for.

Jim Shepherd

I... I... I'd be surprised if anybody in the coast is doing over... overly well because of the overall fibre cost. And I think when you look at the... again, just to repeat, it's...

it's the... the product market as well as the fibre costs as well as the debt. And so I think Howe Sound could hold its own, if anybody, because we have the most convergent cost and it's... it's a well run facility. So holding our own is not the issue here, but of course we don't want to just hold our own; we want to make money. And so there comes in the question of the debt and the level of debt and what the expectations are in the repayment schedule. So we just have to get that fibre cost down.

Mark Bishop, RBC Capital Markets Vancouver

OK. And I... just finally on the... on the residual pricing situation for Canfor, just... could you clarify how the changes in market pricing under the formula may be affecting some of the other outfits, other than Canfor? Because it appears maybe that not all companies are receiving the same kinds of impacts. And... and is this solely driven by Canfor's changes, or do you see the entire market in the interior, say by year end, going to the same... same level of market pricing?

Jim Shepherd

I think, Mark, if anything, we were a follower, not a leader. We in fact have formulas in place, and at the beginning of the second quarter, for example, ended up paying 70 to \$80 for (inaudible) unit of chips from the interior, where competitors were paying 20 to \$30 less. Maybe \$30 is high, but certainly \$20 or more less than what Canfor was paying. And so if you looked at just the... the market dynamics around pulp, we clearly were paying excessive amount for... for chips coming into the pulp mill.

So all we did was went out and, starting in the third quarter, said that we are going to catch up to everybody else. And I'm speaking now of the interior of British Columbia. And... and so the impacts are significant for pulp and lumber but, as already mentioned, we are a net buyer of chips, so overall there will be a financial improvement for the company based on our... on our chip buying.

So just trying to get the essence of the question. We followed, not led. And we just really have gone to where the market has been for some time prior to the first quarter (inaudible).

Mark Bishop, RBC Capital Markets Vancouver

OK. No, one of your peers had made a comment specifically suggesting that they didn't see the same kind of drop in residual pricing. So it must be a timing issue as to --

Jim Shepherd

It was... it was a timing issue. We... we... we had signed contracts of varying lengths of time, but say the magnitude of years, and we always have mechanisms in these contracts as protection to both the seller and the buyer. And we were following the contracts, but the market had just changed that dramatically, and so you saw the big drop in pricing for Canfor, as where others probably had evolved more time. Especially if you're a net seller of chips, you want to be careful about too dramatic a change.

Mark Bishop, RBC Capital Markets Vancouver

Right. Right. OK. Thanks very much, Jim.

Jim Shepherd

You're welcome.

Operator

Thank you. The following question is from John McNeil from Cavalier Capital. Please go ahead.

John McNeil, Cavalier Capital Toronto

One of the -- good morning. One of the alternatives to a share buy-back is to reinstate the dividend. I'm wondering if the board debated that choice, and if they did, what led them to decide that a share buy-back was a better idea. And if they didn't debate it, when... when do you think the board will start thinking about dividends? Under what circumstances and... and when? Thank you.

Jim Shepherd

Well, it's a... first of all, it's a very good question. And every... every opportunity the board does debate it. And the question is... well, I guess the... the premise is we want to pay an appropriate dividend, and we also want to pay a sustainable dividend. And so the... the discussion

goes around the alternatives to cash and making sure that, as management, we can demonstrate to you, the shareholder, that we can deliver on the promise here. So investment in the company, if we can show a good return for that investment, how does that compare with an immediate reinstatement of dividend? And so it was debated. And our conclusion was that, with the... the drop in market pricing and some of the other elements of the... of the business, could we in fact reinstate a dividend on a sustainable basis, and our deliberations led to the conclusion that now is not the time. But we also went on to making sure that we have a vehicle to repurchase shares, and so that... that was also decided.

So I will say a very, very important question, and... and very valid. It's debated every opportunity, and our... our conclusion this time was that this was not the appropriate time to reinstate the sustainable dividend.

John McNeil, Cavalier Capital Toronto

Thank you.

Operator

Thank you. The following question is from Eldar Brodski from Burlin Game Asset Management. Please go ahead.

Eldar Brodski, Burlin Game Asset Management, San Francisco

Hi. Would you guys consider becoming more aggressive on your share buy-back beyond the 5% issuer bid, especially at prevailing prices?

Jim Shepherd

Well, we're going to stick with the program of 5%. I think at the... the end of the day, if there's vehicles or opportunities to do that, we certainly will consider all options. If there's a solution to softwood lumber, that may open the door to some reconsideration, but at this point we'll stick with a normal course issuer bid.

Eldar Brodski, Burlin Game Asset Management, San Francisco

What's the reasoning for that?

Scott Wilson

It's Scott Wilson here. The... the rules permit us... I believe it's the... the lesser of 10% of the... of the shares outstanding or 5% of the float, and it's really the lesser amount which is driving the amount here of 5%. That is as much as we can do, so... so in... in an annual period. So that is what the board has authorized the program to be and, as Jim said earlier, we'll... we'll look for the appropriate opportunities in conjunction with the board to... to get going on that.

Eldar Brodski, Burlin Game Asset Management, San Francisco

So... so there's no route the company can take to increase a share buy-back beyond 5% in one year?

Scott Wilson

No. These are the TSE rules.

Eldar Brodski, Burlin Game Asset Management, San Francisco

OK. Because the reason I ask is that, you know, you guys are spending a billion dollars on CapEx. I'm not clear on what kind of capacity increases that would add, but it seems like you could buy back...

[TAPE FLIP]

...you know, what... what you can increase capacity with that new CapEx. So I just wanted to understand, you know, how the... the board is thinking about... about that, you know.

Scott Wilson

Well, it's a... it's a... it's a very good question, and I... as... as we stated, the amount that we are putting into the share buy-back is as much as we are permitted to do. But as it relates to capital, as... as Jim noted earlier, the way in which we look at it is very disciplined. We use a full risk analysis and DCF analysis, and the rates of return that is required for any capital to be spent must meet a hurdle rate, and using that conservative pricing outlook. So whether or not the... the net present value of that investment exceeds an investment in the company's

shares is something that one should be doing. And because they both offer very attractive outcomes, we are pursuing a share buy-back at the maximum amount we can do.

Eldar Brodski, Burlin Game Asset Management, San Francisco

OK. Thank you.

Scott Wilson

You're welcome.

Operator

Thank you. Once again, please press star one at this time if you have a question.

The following question is from Paul Quinn from Salman Partners. Please go ahead.

Paul Quinn, Salman Partners Incorporated Vancouver

Yeah, just a follow-up question on the... the 26% estimate of beetle kill wood. That... that estimate just... I don't know, I... I would have guessed somewhere, you know, high... north of 35%. So I'm just... given an idea of... of which mills are running sort of the... sort of the high percentage, and which... well, actually the easier way would be which ones are... are well low than the... the 26% average and which ones are higher?

Jim Shepherd

Well, in... in... in a general sense, the... the highly impacted beetle regions are west of Prince George, Plateau particularly, and Quesnel. And once you get further west than Houston, the number drops significantly; north of Mackenzie the number drops; and even for the... some of the Prince George mills -- Bear Lake, Prince George (inaudible) a lot of their log source is coming from... sort of ahead of the beetle stream. Of course Radium is not overly impacted, nor is the... is the northeast. So Plateau and Quesnel are... are the two big hitters that drive the number by and large. Prince George is second, and then all outlying areas are much smaller.

Paul Quinn, Salman Partners Incorporated Vancouver

OK. So are Plateau and Quesnel running almost a hundred percent beetle kill then?

Jim Shepherd

Yeah, I think that's a fair percentage. It might be a little bit less, based on some of the.. the logging permits, and... and of course you have other species that come into play here. But certainly over 90% at Quesnel, and again close to that in Plateau.

Paul Quinn, Salman Partners Incorporated Vancouver

Great. Thanks. That's all I have.

Operator

Thank you. The following question is from Don Roberts from CIBC World Markets. Please go ahead.

Don Roberts, CIBC World Markets Inc. Ottawa

Thanks. Jim, well, we're... I guess on the... on this lumber file, we're hearing, you know, chatter of perhaps a hybrid border measure out there, with the quota back east and the duties out west. What... what are your thoughts on it? Because it seems... can you actually operationalize something like that?

Jim Shepherd

Well, there is the problem of softwood lumber: how do you find a deal that one solution fits all. And from an economics perspective, there are certain regions that the industry that can sustain a border tax, others that can't. We've got the beetle issue to deal with in the north. So it's... it... it... it's... it's rumoured that there is the hybrid that's being talked about. And whether or not such a hybrid would be acceptable to the US industry is unclear to me. So you know, back to the... the give and take here. If... if there is a negotiated settlement, and... and I still believe that there will be one, there has to be some elements where everybody walks away with... with something. No one's going to get everything. But when you look at the economics again, it will vary across this country.

So to me, it's not an issue of the border measures only; it has to be the package. If... for a company like Canfor to be involved with a solution that, say, has a border measure, what does that do to our competitiveness relative to, say, the rest of the country? And what does that mean for timber pricing in that competitiveness? And... and again, there's one of the problems with... with softwood lumber, because anything to maintain a competitiveness, i.e., the package, then you get the suspicions of the Americans raised, where then they see, you know, we're not really doing anything to solve their problem. And so I think the hybrid will work in Canada, but whether or not it's something that the Americans will accept is... is really a big question.

Don Roberts, CIBC World Markets Inc. Ottawa

And lastly, we've heard some announcements I guess out of the... one of the Quebec ministers regarding imminent federal assistance here related to the duties. You know, there's been chatter in the past about loan guarantees and so forth. Could you give us any colour on... on what is out there? Because it clearly has implications also for maybe the barrier to exit here on some of these higher costs now, and whether they're going to be kept in the game.

Jim Shepherd

Yeah. I'm not... I'm not sure what's happening in Quebec. We have mill in Quebec, the Daaquam mill, I can tell you that it's not easy to make money in eastern Canada today with the... the cost structure and the cost of logs. But I think the... the whole question of a provincial industry and what it means to the provincial economy, those communities, this is a... really a tough thing for provincial governments to deal with. I would say the most adaptable government in this country that I have experience with is the province of BC. You know, we have curtailed facilities here in this province, and we have adjusted forest policy, and we've just moved down the road of trying to be more competitive. We shut down Hines Creek in Alberta. It was a very, very tough decision, especially in relation to that community. But it was... it was a tough thing to do, and... and so I don't see at this point in time that kind of decision making being made in eastern Canada. And whether or not it has to do with the local politics or the economics or just the fibre baskets surrounding the mills or whatever, but I just don't see the same rationalization happening in eastern Canada.

And so provincial governments, I think, look beyond just the economics of the forest industry. They look at the

social impacts: what does it mean for the communities and so forth. So I'm beginning to ramble here, but you know, my worry is that you get into subsidy, you get into some form of government assistance here, and, although there may be some good reasoning around that, softwood lumber and the sham that it represents means that we've got now very onerous duties that we're paying on lumber going over the border. But we still have to sort of work our way through what's right for the industry and (inaudible). And my hope is that provincial governments are going to take the long term here and not just, you know, have some sort of holding on strategy but at the end of the day those mills shouldn't be running.

Don Roberts, CIBC World Markets Inc. Ottawa

So... but specifically on the federal assistance, you're not hearing anything more than just the old story on the loan guarantees?

Jim Shepherd

No. And I don't know how much relevance there is to that. You know, this... this is a political problem here. I think politicians are trying to find some ways of acting responsibly. And so as industry has fought the valiant fight, and now we have five billion on deposit. When do you say is... enough is enough and the industry just can't carry on doing what it's been doing or carry the fight alone. So think there is some of that consciousness of the federal government saying hmm, we haven't been able to solve this thing, what can we do to try to help the industry that's taken the brunt of it. So I... I hear the rhetoric, but I just don't know how... how much substance there is behind it.

Don Roberts, CIBC World Markets Inc. Ottawa

Yeah. OK. Thank you.

Operator

Thank you. There are no further questions registered at this time. We will now take questions from the media. If you have a question, you may press star one on your telephone keypad.

The first question is from Stan Misener (ph) from Opinion 250. Please go ahead.

Stan Misener (ph), Opinion 250

Jim Shepherd, I... looking at the share prices at Canfor, and my interest is are we... is there a market out there or a demand that says well, we're going to hit the wall in five to seven years and Canfor may not be a good investment in terms of where the forest industry is going in the province of British Columbia, and particularly in the central part of the province, where the bulk of your business originates?

Jim Shepherd

Um... I... I... I think the implication is we're going to run out of quality wood, and therefore what's the... the substance of the company?

Stan Misener (ph), Opinion 250

Yup.

Jim Shepherd

Well, our job is to make sure that that doesn't happen. We've got a period of time here to plan for that, and it will be a combination of things. It's to have the right balance of assets to whatever fibre(?). And I... I... I don't hear any black and white answer, which is how much fibre is available to us in five to seven years. And I'm using actually a time frame of ten years. And I don't think it's going to be as bad as what the doom and gloom scenario is. There's still alternative species, there's still relatively health pine stands. So yes, for a number of mills and communities it will be devastating, but overall, especially for a company like Canfor, and I'm speaking more to Houston, Mackenzie, Fort St. John, Shetland, Bear Lake, you know, we have healthy forest that we... we see going forward. But certainly mills like Quesnel and Plateau are going to have to think very hard. It's just what we will be in fact harvesting and... and running through those mills in ten years.

But in the meantime, back to your five to seven years, what are we going to do to mitigate this? We have a strong foundation today, and yes, we're going to make it better. But we've got that period of time to geographically spread our wings here so that we aren't devastated as a company in five to seven years; in fact, we've got a portfolio (inaudible) in other geographics, and hopefully have a company that's much stronger in five to seven years.

Stan Misener (ph), Opinion 250

So you're saying your concern is in the central part of... of British Columbia, but outside of that you feel more optimistic in say...

Jim Shepherd

Very optimistic.

Stan Misener (ph), Opinion 250

...seven to ten years.

Jim Shepherd

Yeah, very optimistic.

Stan Misener (ph), Opinion 250

What's... but is that... is that driving your share price? Do you feel that that is... I mean, there's a feeling in the east because of the beetle that's not got a lot of attention that, you know, industry or investment money is not... is sort of looking and having a second look. And they would look at you as well.

Jim Shepherd

Yeah, I'm trying to... I... I... when... when you look at the... the impression of the beetle wood, it... it's... it's like these guys have an advantage, and therefore we've got to find a way to balance the advantage. And it's the old game ministry if somebody's doing better than the other guy, the other guy either finds a way to catch up or complains about it. And... and the... the... the magnitude of what this beetle wood is doing to the market is... is I think misrepresented. If you take, for example, the amount of wood that mills are processing today and the increased productivity coming out of beetle infected forest baskets, it's still a much smaller number in terms of the impact on the market than, say, the increased capacity that the US is putting in. And... and so eastern Canadians look at us as having advantages, and... and I think it's... it's more misinformation than anything else.

Stan Misener (ph), Opinion 250

Yeah.

Jim Shepherd

But... but back to the... the share price. I can't... you know, the value's the value, and investors always look at this as... as I always say, they're always right. Whatever... whatever they deem to be the value, that's what it is. And I think we're just being impacted by, in a relative sense, a lower lumber price. There's this aura of doom and gloom in the housing market, which I don't agree with. Rising interest rates or the fact that these housing starts can't sustain themselves, higher energy costs. And... and so I think there's a... there's a lot of elements of that. But at the end of the day, I think it's a great value, and I also think that this company with where we are today has got some very good metrics to go around the mills, the products, and the... and the cost side. And so what we want to do is use that as a foundation to grow a company that's well beyond the... the challenge of fibre affected by beetles in five to seven.

Stan Misener (ph), Opinion 250

One more bite and I'm out of here. Let me ask you about, you know, bigger is better. David Emerson used to say to me we have to grow, we have to grow, we have to get larger in order to be competitive. But the smaller mills seem to be doing as well or better than Canfor, who is growing very large. What... what's your take on that? You know, how do you respond to that? If you had to look back, would you say hey, listen, I wouldn't have liked to have grown quite as quickly as we did? I... I don't think it's important to be this large? What's Jim Shepherd say?

Jim Shepherd

I... I... I don't think there's any perfect answer to that. Getting bigger has advantages. Staying smaller has advantages. And I've worked in big and small, and they... they each have their uniqueness. I would say on an individual basis our mills are as good as any smaller mill. I don't know smaller mills that are doing appreciably better than ours. Unfortunately, as a public company, everything we do is in an open kimono. And so, you know, you explain everything, you try to show the numbers. And I know a lot of the smaller mills, which are either family owned or private, you don't know what's inside the pants. So I... I would say... and that... that is a plus in Canfor. Regardless how big we are, if you're

running Plateau, you treat it as your business, and quit worrying about whether or not you're competing for capital or something in the bigger organization.

But fundamentally, our approach is that we're trying to work with a customer base and a market that is saying to a company like Canfor we would like you to grow. For example, at our board meeting last week we had the... the CEO of Lowes Building Supplies come up and speak to our board. And they're looking at tremendous growth inside that organization, and they're the largest competitor of Home Depot. So they're saying to us we want to put in another thousand stores in North America over the next number of years. And so they're saying to Canfor, so what are you going to do. They're our largest customer today. We sell to Lowes over 800 million board feet. They have annual sales revenue of 43 billion. So you get your mind around well, by getting bigger, we can tie our wagon to their... to their train. And hopefully we will show, as a bigger company, we can be as competitive as anybody else. A smaller customer is basically dealing with a sort of day-to-day auction market, and there may be programs but just can't sort of get into that same league.

So I don't think there is a right or wrongness to the question. I think we are clearly going down the... the road of getting bigger. It has its challenges, but at the same time it has its opportunities, and... and so I'm not uncomfortable with getting bigger. The getting bigger in this case that I'm talking about is not sitting in our own back yard. We've got to go geographically to a better balance here of fibre baskets and product lines.

Stan Misener (ph), Opinion 250

Thanks.

Operator

Thank you. The following question is from Gordon Hoekstra from Prince George Citizen. Please go ahead.

Gordon Hoekstra, Prince George Citizen Prince George

Good morning. Just a question on your... on the capital expenditures going forward. Did I understand correctly that it's going to be about 300 to 350 million in each of the next three years?

Jim Shepherd

That is the plan.

Gordon Hoekstra, Prince George Citizen Prince George

OK. And... and... and a little bit... and that... is that... is that mostly meant to be targeted at your existing facilities, or is there any thought that that's... to, you know, building some kind of new... new facilities as well?

Jim Shepherd

That's primarily existing facilities, but we're open minded to growing the company in either new or acquiring facilities. But that... that number's intended for existing facilities.

Gordon Hoekstra, Prince George Citizen Prince George

And... and... and what's the... the... basic premise behind that, you know, beyond sort of efficiency? Is it meant to be targeted at... at... at... at certain kinds of facilities? I heard it mentioned mostly at lumber.

Jim Shepherd

Mostly at lumber at this point, Gord. And... and we've got a well thought through plan over the next three years which mills we would like to target, what projects we want to put on a priority basis, what costs that we want to address, and... and so hopefully again the... the numbers will prove that these investments have been the right investments for Canfor. But primarily in lumber, and... and of course we still have a significant amount of money that goes on an annual basis for maintenance, which is on all of our businesses.

Gordon Hoekstra, Prince George Citizen Prince George

Thank you.

Operator

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

Allan Dowd, Reuters

I gather International Paper has now distributed its book on its US timberlands and will be doing so shortly on its... on its sawmills. Have you guys decided as to whether or not you're going to be a player in that process as part of the potential bidding?

Jim Shepherd

I... I think the best answer is that we'll kick the tire. There... there... there's... there's huge questions for Canfor to ask, and... and... and one of the questions is where next. And so here's an opportunity that's come along, unsolicited. IP's going to sell assets, so... so for us to understand the... the type of assets that they have, how competitive they are, and critically important for us is the mechanism of timber pricing, and primarily in the southern needle pine region, what it means for a company like Canfor. And we will weigh that compared to other opportunities that are available to us. And so the question is is IP and the assets of IP a serious acquisition target for Canfor. I think it's too early for me to answer that. We will kick the tires, and... and through that analysis we'll have to do some soul searching. Is it worth taking a run at?

Allan Dowd, Reuters

Is there a potential that says that... that the IP sale could change some of the political dynamics on the softwood front? Because IP was such a, you know, financier of the coalition for a long time, if a Canadian company or, you know, a different company comes in and buys those wood assets, does that have... in... in the longer term, does that... could that play into the politics of the... of the softwood dispute?

Jim Shepherd

I think... well, two facts. One is that the... the funding, as you mentioned, a large part has come from the size of organization IPs. But also IP has signalled here very strongly more than just the exit of the business. They do not support the constitutional challenge of dispute mechanism in the... in NAFTA. So they've really broken ranks with the US coalition. And I think that kind of

dynamic is going on inside the US industry, so they're not all on the same page.

I... I don't know. I think the... the... the tenacity, the strength, the deep pockets of the US coalition, could they sustain an exit of IP? Probably. Certainly history has proven that these... these member companies are willing to carry on the fight, and some very, very... they... they're well financed. Whether or not there is enough of an industry in the US that feels this... this is in their corporate best interest is a question mark.

So yes, the dynamic will change, but my... my view on it, it's not enough to... to materially alter the intent of the coalition.

Allan Dowd, Reuters

Thanks.

Operator

Thank you. The following question is from Erin Acton from CJCI. Please go ahead.

Erin Acton, CJCI Prince George

Hi there. I'm hoping to find out in addition to today's conversation, but there is a protest going on by the Tackla (ph) native band in (inaudible). I'm hoping to find out what Canfor is doing to resolve that dispute with the First Nation.

Jim Shepherd

Sorry, I'm not overly... did that just happen today?

Erin Acton, CJCI Prince George

No, it's been going on since the 24th.

Jim Shepherd

Oh. Well, I know we're in discussions in Tackla over the... you know, the harvesting plans. We... I... I don't have very much detail, so I'll be cautious of what I say here. I know the concern over, you know, the beetle issue, and... and that's relatively expensive logging for us

north of Tackla Lake. And so the... the intent of the Canfor is to, over the next short order, move some of that logging volume down to impact the beetle plan. So... sort of concern over the economics and what it means to Canfor. I... I spend a lot of time up there, so I know the region extremely well, and from my perspective, we have tried in Canfor's way to sustain a business, make sure that the economics of... of forest management and harvesting has been well in the considerations of the... the local communities' needs, whether it be at Tackla Landing or up at Bear Lake. And our hope is that we can find a way to address their concerns. So I know we have people like Marcel who'll be dealing with that. So I'm... I'm speaking a little bit without all the certainty of detail here, but my worry is that, even though we tried very hard to sustain a business up there, things are changing. And so how do we in fact go through a transition here? But our intent long term is to be a very active forest company in that region (inaudible).

Erin Acton, CJCI Prince George

I wonder if I could ask you maybe about the... you know, Canfor's attempts at communication. They say that they haven't received the proper consultation or accommodation that I guess is standard. What's your response to that?

Jim Shepherd

Well, again, I don't know the specifics. We... we do work very hard in terms of consultation, and we put a lot of effort into listening. And so I would be very surprised if we have not done exactly what I just said. But without details, I can't comment.

Erin Acton, CJCI Prince George

OK. One of the... the Chief of the Carrier (inaudible) Tribal Council says OK, well, sending letters to these bands isn't very good because a number of the people there are illiterate. You know, can you describe Canfor's... what Canfor does? Like you say, you don't have details on this particular incident, but what is the... the usual route that Canfor goes to consult with First Nations?

Jim Shepherd

Well, a lot of it is interactive, face to face, dealing with individuals to individuals, trying to understand and learn

what the issues are. And it's important that we understand, you know, just what specific issues are around Canfor's interface with... with either a First Nations community or any community. Throughout the province we have extremely good relationships with many First Nations groups, and have working relationships with many. So I think that's a testament to how we do business. So if there's a specific problem, i.e., a letter, which I... I'm sure... communicating is done in many ways: verbally, visually, and of course in writing. And... and so I think that's part of the process, but it's not the only process. A lot of our communication is face to face.

Erin Acton, CJCJ Prince George

Thank you very much.

Operator

Thank you. The following question is from Gordon Hamilton from Vancouver Sun. Please go ahead.

Gordon Hamilton, Vancouver Sun Vancouver

Good morning. Jim, you talked about being very aggressive with your sawmills and not losing any cash on them. And you also (inaudible) and that other mills... or that other mills are doing... doing what Canfor is doing. I wonder if you could expand on that a little more. Are you looking at more mill closures, or are you looking at operating your sawmills in a much more tightly disciplined way than the rest of the industry? And... if you could just give us a little more colour on that.

Jim Shepherd

Yeah. Gord, I... I can't comment on the rest of the industry. Every company does... makes decisions based on their own need. But as a premise, we... we will not run our facilities to lose cash or... try to use the best balance financially. (Inaudible) now if we know... I mean, everything from order file commitments to other issues around community and logging and so forth. But overall, our discipline is around working capital, to make sure that we don't have an overabundance of money tied up in the resource; the costs; details around that facility allow it to run, depending on markets. So the biggest uncertainty for me is... is (inaudible) the marketplace. And so the discipline, I would say, in Canfor is very much around the

best use of cash and not to lose money in a facility. So how others do it, I can't answer to that.

Now, having said all that, we try to work around the needs of employees and communities, so if we knew we were going to take some down time, say, later this year, we'd do the best we can to take it around the Christmas holidays. So there's that kind of timing (inaudible) as well. But yes, I would say a strong discipline, but how it compares to others I don't... I don't (inaudible).

Gordon Hamilton, Vancouver Sun Vancouver

Do you foresee more permanent mill closures coming up in --

Jim Shepherd

No, I... I think for Canfor we're... we're kind of through what we had set out to do. I mean, it was... it was intended on our part to... to deliver on what's been done now. And so the... the mills that are remaining are very much of a long term commitment by Canfor. That's actually going over the next, say, ten years. The beetle issue may impact some of the manufacturing capacity around Prince George, but it's too early to say. But no, the... the mills that are currently in Canfor's world are intended to be in Canfor's world for some time.

Operator

Thank you. The following question is from Richard Macedo from Alaska Highway News. Please go ahead.

Richard Macedo, Alaska Highway News Fort St. John

Hi, Jim. Do you have a schedule for ramp-ups of the OSB plant in Fort St. John? And when is the plant going to be in full production?

Jim Shepherd

Well, the intent is to start up next week. And... and so we have... I think full... full production is a number of years down the road. I think we've got a couple of years in there to get up to full capacity at the plant. Hopefully we're conservative. Overly we're taking a rational approach to this. But you know, we'll be up to 70, 80% in... in... in a number of months, and then we'll be sort of

creeping our way up, 90% maybe at the end of the first year, and then getting to full operating capacity in a couple of years. So that's more or less the plan right now.

Richard Macedo, Alaska Highway News Fort St. John

Is it going to depend a lot on the price too, since OSB prices are quite volatile?

Jim Shepherd

Well, my hope, and the way this mill's been designed, is that there are few mills out there that have a better cost matrix than Fort St. John's. So regardless of market pricing, this mill should be the one... one of the facilities that just keeps on running.

Richard Macedo, Alaska Highway News Fort St. John

OK.

Operator

There are no further questions in the queue at this time. I would now like to turn the meeting back over to you, Mr. Shepherd.

Jim Shepherd

Thank you, Operator. I'll just conclude by thanking everybody for taking the time this morning. And we have a couple of questions that we will reflect on and get back to those individuals who asked, and you can always call, and either myself or Scott, Kevin or David Jan can... can get the information required.

But as I said, a disappointing third quarter for reasons we talked about. I'm more optimistic going into the fourth quarter. And for all the concern around things like capital expenditures and the use of that cash in comparison to, let's say, a dividend or buy-back of shares, very relevant, and we are certainly trying to weigh all the benefits of each and every decision that we make. But certainly at the end of the day, our mandate and obligation is to deliver on the promises we made.

But I thank you very much for taking the time, and give us a call if there's anything more we can add. Thank you, Operator.

Operator

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