

CORPORATE PARTICIPANTS

Don Kayne

*President & Chief Executive Officer, Canfor Corporation
& Chief Executive Officer, Canfor Pulp Products Inc.*

Alan Nicholl

*Senior Vice President, Finance & Chief Financial Officer,
Canfor Corporation & Canfor Pulp Products Inc.*

Brett Robinson

President, Canfor Pulp

Wayne Guthrie

*Senior Vice President, Sales & Marketing, Canfor
Corporation*

Sean Curran

*Vice President, Sales and Marketing for Canfor Pulp
Products Inc.*

CONFERENCE CALL PARTICIPANTS

Mark Kennedy

CIBC World Markets

David Quezada

Raymond James

Paul Quinn

RBC Capital Markets

PRESENTATION

Operator

Good morning, ladies and gentlemen. Welcome to the Q2 Analyst Call. I would now like to turn the meeting over to Mr. Don Kayne. Please go ahead, Mr. Kayne.

Don Kayne

Thanks, operator, and good morning, everybody. Thanks for joining the Canfor and Canfor Pulp second quarter results conference call.

I'll speak briefly to the results of both companies before I turn things over to Alan Nicholl, who our Chief Financial Officer for both Canfor Corporation and Canfor Pulp Products Inc. Alan will provide a more detailed overview of our performance in Q2, after which we will take

questions. With me today are Brett Robinson, President of Canfor Pulp; Wayne Guthrie, our Senior VP of Sales and Marketing for Canfor; and Sean Curran, VP of Sales and Marketing for Canfor Pulp.

Canfor's net income for Q2 was \$54 million, up from \$46 million in Q1. In Q2, shipments from our sawmills was up 33 percent and for our pulp and paper operations up 23 percent, including Taylor. Excluding the volume impacts of the closure of Quesnel and Daaquam, lumber production was up 6 percent for the quarter. Canfor Pulp posted a net income of \$19 million in Q2, down from \$26 million in Q1.

Prices for lumber decrease through the quarter consistent with normal seasonal pricing patterns and our overall realizations were less impacted due to our products and market profiles. Pulp markets were balanced over the quarter and inventory levels decreased due to reduced supply related to maintenance outages. Prices remained stable in North America and Europe and were down in China.

Despite housing starts being down somewhat in the quarter, along with the challenging new home sale report, we remain confident that the U.S. economy will continue to slowly improve. Demand for both lumber and pulp from China was solid, with volume shipped in line with our plan for pulp and exceeding plan for lumber.

Another significant development over the quarter is the recent Supreme Court decision regarding have Aboriginal Rights. While the decision will have an important implications for government and the treaty process, from Canfor's prospective the decision affirmed things we have known for a long time; we need solid mutually beneficial relationships with the First Nations, whose traditional territories overlap our operating areas.

The decision does place a greater responsibility on the province and our industry to consult and negotiate with First Nations regarding land and resource use within traditional territories. But we have long understood the importance of maintaining good working relationships with the First Nations in our operating areas and basing these on mutual respect and understanding. After all, our goals and principals are often very similar and we recognize each has a vital role to play in building economic opportunities within traditional territories.

With those introductory remarks I will now turn the call over to Alan Nicholl to provide more details on Canfor and Canfor Pulp's financial results for the quarter.

Alan Nicholl

Thanks, Don, and good morning everyone.

My comments this morning will focus principally on our financial performance for the second quarter of 2014 by reference to the previous quarter. Full details of our results are contained in the Canfor and Canfor Pulp news releases, which were issued on Wednesday and Thursday.

As always, you will find an overview slide presentation of both the Canfor and Canfor Pulp websites in the Investor Relations section under Webcasts. The presentation highlights consolidated and segmented results along with key adjusting items and I will be referring to this presentation during my comments.

For the second quarter 2014 Canfor reported shareholder net income of \$54 million or \$0.39 a share, up from \$46 million or \$0.33 a share for the first quarter of 2014 and down from \$110 million or \$0.77 a share reported for the second quarter of 2013.

On slide three of our presentation we highlight various non-operating items net of tax and non-controlling interests, which affect the comparability of the results between the quarters. In the second quarter of 2014 these items had a net negative impact of approximately \$2 million or \$0.02 a share. After taking account of these items the second quarter adjusted shareholder net income was \$57 million or \$0.41 a share compared to similarly adjusted net income of \$46 million or \$0.34 a share for the first quarter of 2014.

You'll see on slide four of our presentation that our second quarter operating income was \$97 million, an increase of \$13 million from the previous quarter. The positive variance primarily reflected higher shipments across all segments resulting from improved railcar availability and the resolution of the truckers strike at the Vancouver port at the end of the first quarter.

Results for the lumber segment are highlighted on slide five of our presentation. The current quarter's operating income was \$74 million, up \$18 million from the previous quarter. This improvement largely reflected the increase in shipments attributable to the improved transportation performance, offset in part by a modest reduction in sales realizations due to lower prices and a stronger Canadian dollar. Unit manufacturing costs were down slightly, principally due to continued productivity improvement as well as other seasonal factors. Total lumber production was down from the previous quarter as a result of the closure of our Quesnel Sawmill and the sale of our Daaquam Sawmill in the first quarter. Excluding the impact of these mills, as Don mentioned, production was up 6 percent, largely due to aforementioned improved

productivity. Consumed log costs were broadly in line with those in the previous quarter, reflecting the consumption of significant volumes of logs harvested in the first quarter.

Canfor's Pulp and Paper segment principally comprises the results of Canfor Pulp Products Inc. As you can see from the slide six of the presentation, Canfor Pulp reported net income of \$19 million or \$0.27 a share compared to net income of \$26 million or \$0.36 a share for the first quarter, a net income of \$8 million or \$0.11 a share for the second quarter of 2013. After taking account of one-time non-operating items net of tax, Canfor Pulp's second quarter adjusted net income was \$18 million or \$0.26 a share. This represented an \$8 million or \$0.11 a share decrease from adjusted net income of \$27 million or \$0.37 a share for the first quarter.

As you will see from slide seven, the decrease in Canfor Pulp's results was largely a function of lower sales realizations, scheduled maintenance downtime, and higher fibre costs. Sales realizations reflected lower prices to China, which offset slight price increases in the U.S. and Europe, the 1 percent stronger Canadian dollar, and a higher proportion of shipments to Asia following the resolution of the Vancouver trucker strike. Scheduled maintenance outages were taken at the Intercontinental and Prince George Pulp Mills. Higher fibre costs were driven principally by higher freight costs and other seasonal factors.

Canfor Pulp's Paper segment earnings showed a slight decrease quarter over quarter, largely due to the impact of a planned maintenance outage of the paper machine, which more than offset a modest improvement in unit sales realizations and higher shipments.

Capital spending in the second quarter totaled \$63 million, of which \$39 million was for the lumber business and just over \$20 million for Canfor Pulp. We are currently projecting 2014 total capital spending of approximately \$160 million for Canfor nearly \$60 million for Canfor Pulp.

During the second quarter Canfor repurchased 4.3 million common shares under its renewed Normal Course Issuer Bid, reflecting the low share price in the quarter compared to previous periods. And yesterday the Canfor Pulp Products Inc. Board announced a dividend payment of \$0.0625 per share for the quarter, consistent with the previous quarter.

At the end of the second quarter Canfor excluding Canfor Pulp had net debt of \$177 billion with available liquidity of \$193 million. Canfor Pulp had net debt of \$12 million with available liquidity of \$118 million. Net debt to total

capitalization excluding Canfor Pulp was 12 percent, for Canfor Pulp it was 3 percent, and on a consolidated basis it was 11 percent.

And with that, Don, I will turn the call back over to you.

Don Kayne

All right, thanks, Alan. Operator, I'd now like to open the lines for questions.

QUESTION AND ANSWER SESSION**Operator**

Certainly. We will now take questions from the telephone lines. We will first take questions from the financial analysts. If you have a question, please press star one on your telephone keypad. If you are using a speakerphone, please lift the handset and then press star one. If at any time you wish to cancel your question, please press the pound key. Please press star one now if you have a question. There will be a brief pause while the participants register. Thank you for your patience. The first question is from Mark Kennedy of CIBC. Please go ahead.

Mark Kennedy, CIBC World Markets

Good morning. I guess a couple of first questions centered more on the pulp side. Just wondering, first of all, could you just characterize where your pulp inventories are now? Are they sort of at normal levels or are you still carrying some excess that would have been built up in the first quarter?

Don Kayne

Okay thanks, Mark. Maybe I'll get Sean to answer that question for you.

Sean Curran

Good morning, Mark. Our pulp inventories are returning to regular target levels. It's obviously coming off Q1 with weather related they were a little higher, but you can see we had a reduction quarter over quarter of about 9,000 tonnes and we are on track to get them back into line, probably another 5,000 to 6,000 tonnes in there, by the end of the year.

Mark Kennedy, CIBC World Markets

Okay. And what's your general outlook, Sean, on pulp as you look into the second half of this year and early part of next year? Because I guess the sentiment I'm seeing from the industry is that maybe things are looking better than we would have thought a few months back.

Sean Curran

Yes. I would say the sentiment in the market is reflecting that. There's been a change over, I would say, the last six months; however, we are going to remain cautious and conservative on our pricing forecast, and mainly because all the hardwood projects, the two remaining ones for this year, are now in production. We expect them to be fully into commercial into the stream by end of Q3, latest Q4. And also we have seen some swing tonnage as well in the NBSK, the softwood world in Chile as well the U.S. south. But what's offsetting that, I think that's where the sentiment is changing, is that the demand has been quite good in our regions. So I think you have to be a little bit conservative as you go forward and we will remain conservative on our pricing forecast through the end of the year.

Mark Kennedy, CIBC World Markets

Right. Okay. And then finally, I guess just on the balance sheet for Canfor Pulp, like it looks like you guys should be, you know, have zero net debt by the end of Q3 here, so how do you envisage using that balance sheet in terms of the various options in front of you, whether it's increased dividends, stock buybacks or whatever?

Alan Nicholl

Yes, good morning. I think, you know, it's a pretty similar story to what we've said in previous quarters, Mark, namely that, as Sean alluded to, we still are adopting a bit of cautious stance, if you will, with respect to the potential market price impact of this new hardwood capacity. I mean our overriding objectives remain top quartile performance at our mills. We are keen to take advantage of energy projects, the latest of which is the Intercon TG upgrade, as you are aware. But that's our focus and we're very keen to maintain what we consider is one of the strongest balance sheets in industry. So to the extent that those primary objectives are maintained and there are opportunities we will look to potentially take

advantage of some share repurchasing activity, and of course our Board does review dividends on a quarterly basis, though our view is that 6.25 is a sustainable dividend and we want it to be for the foreseeable future.

Don Kayne

I think, Mark, just to emphasize all that Alan said, which is absolutely correct, is that the absolute focus on the balance sheet is going to continue to be and has been our number-one focus.

Mark Kennedy, CIBC World Markets

Right. Okay. No, good. And then finally, this will be my last one then I will get back in the queue, but I guess maybe for Brett, you did mention in your release on Canfor Pulp that you did have some production interruptions at the beginning of the third quarter here, just wondering if you could flesh that out a little more for us.

Brett Robinson

Sure. We've had a number of reliability challenges, specifically around the upgrades on the number one recovery boiler of Northwood. We are just pushing that out to our major outage to deal with that. We believe we'll get that behind us in the four quarter and the boiler is running very well, the design changes are delivering what they need to deliver and we just need to work through and make sure we have a proper fix that's going to last long term.

Mark Kennedy, CIBC World Markets

So you're expected sort of outage loss of 10,000 tonnes, that doesn't look to be growing then this quarter?

Brett Robinson

No.

Mark Kennedy, CIBC World Markets

Great. Thanks very much.

Don Kayne

Thanks, Mark.

Operator

Thank you. The following question is from David Quezada of Raymond James. Please go ahead.

David Quezada, Raymond James

Good morning, guys. I was wondering if you could give us just a really quick summary of the capital program and what projects are ongoing right now, just an update there, and maybe just a follow-up with particular attention on the bio energy projects, like what's the...? We know Intercon has been completed and what else is in the pipeline?

Don Kayne

Yes. Sure, Dave. I think, first of all on the sawmill side, we are continuing our capital program, as you know, we've embarked on about three years ago, and basically right now we are in the midst of an upgrade at Houston where we're upgrading the planer there and we're putting significant dollars into that in terms of optimization and planing capacity and so forth and a new building there as well to house it. That's underway. We're also in some start-ups at Mackenzie currently and getting past the other ones that we had that you've heard about at Elko as well as Grande Prairie, which were also both running well now.

In terms of the energy capital, Brett, maybe you can talk a little about that in terms of where we are at around that.

Brett Robinson

Sure. So we completed the Northwood upgrade earlier this year and we're now actively building the Intercon turbine. The project is going well. It's on schedule for Q1 start-up 2015. It's about a \$32 million project. And then looking out beyond that we're developing projects and trying to figure out we have an option within our power contract that we plan fulfill within the two years, so think by the end of 2016/beginning of 2017 we will have our last power project on line, we're just fleshing that all out.

Don Kayne

And then just to give you an order of magnitude in total cost, or not cost but capital would be about \$160 million that we've, I think we've provided guidance before on an annual basis for lumber, and about \$60 million for pulp.

David Quezada, Raymond James

Great. That's helpful, thank you. The only other question I had was I guess now that the consumption tax implementation in Japan has happened, have you seen any changes in that market?

Don Kayne

I think on that all we've seen really is just, you know, it continues to be strong, although since that's happened there's been a little bit of a decrease compared to past years for sure and, you know, as we come off a record year last year, but this year we saw a little bit of a slowdown here in Q2.

David Quezada, Raymond James

Okay, great. Thank you. That's all for me.

Operator

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

The following question is from Paul Quinn of RBC Capital Markets. Please go ahead.

Paul Quinn, RBC Capital Markets

Yeah, thanks. Good morning, guys. Just a couple, a follow-up on pulp issues that you have been having. Brett, maybe you can give us a little bit of a history course on just the Northwood recovery boiler upgrade, when that was done, and it seems to me that it seems like every six months you have an issue with that recovery boiler and are you confident at the end of the day that you've, you know, after the year major shut in Q4 that you have got the problems licked?

Brett Robinson

So the Northwood recovery boiler came on in Q4 2012 and it is at the root of a legal case that I can't get into

discussing. We did need to change service providers and found a solution that's working. That was the point I was trying to make earlier, is that is running extremely well but we've had some reliability issues in between that we really need to deal with. So the boiler runs really well and then we've have had some downs that were unexpected, and when we get through the outage in the fall I do believe that will all be solved. These are normal type issues for a boiler of this type and we are going to resolve beginning October.

Paul Quinn, RBC Capital Markets

Okay. And then just if you could, ah, the incremental energy add from I guess your Northwood project and, ah, you know, could you quantify what is and when Intercon comes on in Q1 of 2015?

Brett Robinson

Incremental, ah...? Are you talking in terms of just our sales or—because we're doing both power—

Paul Quinn, RBC Capital Markets

Yeah, dollars is what matters to investors, so...

Alan Nicholl

I think, Paul, what we said in the past, and this still remains true, is that by the time we get the Intercon in and everything settled in there I think we are targeting roughly north of \$30 million EBITDA.

Paul Quinn, RBC Capital Markets

Okay. Just for 2014 here what are we looking at in terms of increment before Intercon gets tied in?

Alan Nicholl

Well, we don't. Yeah. Maybe we can take this offline but, you know, the way I'd answer that is we are expecting more than double our EBITDA in 2014 versus 2013.

Paul Quinn, RBC Capital Markets

Okay. I guess just moving on to the lumber side, just the lumber production is pretty impressive given the recent shuts, just wondering if you got a notional sort of production figure that you think you'd be able to run at in 2015/2016. Are we sort of running max for the Canfor system right now?

Don Kayne

No. Paul, it's Don. No, we are not running max yet, as I mentioned, just mostly due to some of the start-ups that we are in, but certainly by 2015 we would expect for the bulk of that to be done and in terms of capacity number, a production number versus capacity in 2015, I would say it's probably going to be in the neighborhood of 92 percent to 95 percent, something like that, as all the mills that we spent the capital on should be, for the most part, completed into 2015 and so we should be solid there to go forward.

Paul Quinn, RBC Capital Markets

Okay. And just you guys referenced the First Nations decision by the Supreme Court of Canada, just have you noticed any or has the conversation between Canfor and First Nations changed since that ruling?

Don Kayne

Not at all. As a matter of fact, you know, and I think we've commented on it before, but just for the, since it's a relatively new decision here, Paul, I mean we have, we think, exceptionally strong relationships with the First Nations and have had for a long, long time and in addition to that when we purchased the Tembec assets we were fortunate that they had also had a very strong relationship with some of the bands down in the south and Tanaha(sp.) in particular, but just overall it's something that we have always focused on. We recognize that they are key stakeholders for the company, not just now but in the past, and I think going forward the relationships we have, we'll just carry those on and of course try to build them even stronger, but it's not something that we'll change really in terms of our approach.

Paul Quinn, RBC Capital Markets

Okay. Last question just on, um, overall U.S. housing recovery seems to be kind of disappointing here. Does

that affect in a material way your plan at Canfor with respect to lumber production?

Don Kayne

Try me on that one again? Say that again?

Paul Quinn, RBC Capital Markets

Okay. I will say it differently, because I can't remember what I said the first time.

Don Kayne

That's what I was hoping.

Paul Quinn, RBC Capital Markets

We've got a more muted recovery in the U.S. housing market and just wondering if that has a material effect on the way you run your operations from a production standpoint.

Don Kayne

Not at all. Matter of fact, you know, we have been preparing for a long time about the U.S. markets not probably coming back to the way they were. If ever, it'll be a while. And so that's really been the thrust for the diversification strategy that we've had geographically for many years, both on the pulp side really and lumber side, and so we think we are well on the road on that and we've built sustainable businesses in pretty much everywhere that we've expected to around the world, and that has just gotten more solid over the last three, four years. So we don't, you know, we're not concerned about that having any impact on our capital plans really at all. I guess the other thing I would add to that is the focus that we're having and do have now are much more on getting maximum value out each log and giving us the diversity from a product mix standpoint as well. So between those two areas, you know, the plans that we have in place we think are solid and sustainable for the future.

Paul Quinn, RBC Capital Markets

Great. That's all I had. Best of luck.

Don Kayne

Thanks, Paul. Take care.

Operator

Thank you. There are no further questions registered at this time. This concludes today's conference call. Please disconnect your lines at this time and we thank you for your participation.

Don Kayne

Thank you, operator, and thanks, everyone, for joining the call. Talk to you next quarter.
