

## FINAL TRANSCRIPT

### Canfor Corporation

### Canfor and Canfor Pulp Second Quarter Analyst Call

Event Date/Time: July 22, 2015 — 11:00 a.m. E.T.

Length: 29 minutes

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »

**CORPORATE PARTICIPANTS****Don Kayne**

*Canfor Corporation — President and Chief Executive Officer*

**Alan Nicholl**

*Canfor Corporation — Chief Financial Officer*

**Wayne Guthrie**

*Canfor Corporation — Senior Vice President of Sales and Marketing*

**Stephen Mackie**

*Canfor Corporation — Vice President, Operations Canada*

**CONFERENCE CALL PARTICIPANTS****Sean Steuart**

*TD Securities — Analyst*

**Mark Wilde**

*BMO — Analyst*

**Paul Quinn**

*RBC Capital Markets — Analyst*

**Brett Robinson**

*Canfor Pulp Products Incorporated — President*

**Daryl Swetlishoff**

*Raymond James — Analyst*

**Mark Kennedy**

*CIBC — Analyst*

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »

**PRESENTATION****Operator**

Good morning, ladies gentlemen, and welcome to the Canfor and Canfor Pulp Second Quarter Analyst Call.

A recording and transcript of the call will be available on the Canfor and Canfor Pulp websites. During this call, Canfor and Canfor Pulp's Chief Financial Officer will be referring to a slide presentation that is available in the Investor Relations section of each company's website.

Also, the companies would like to point out that this call will include forward-looking statements, so please refer to the press releases for the associated risks of such statements.

I now would like to turn the meeting over to Mr. Don Kayne, Canfor and Canfor Pulp's Chief Executive Officer. Please go ahead, sir.

**Don Kayne — President and Chief Executive Officer, Canfor Corporation**

Thank you, Operator, and good morning, everyone. Thank you for joining the Canfor and Canfor Pulp Q2 2015 Results Conference Call.

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

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »

On the line with me today to address your questions are Brett Robinson, President of Canfor Pulp; Wayne Guthrie, Senior Vice President of Sales and Marketing for Canfor; Stephen Mackie, our Vice President of Wood Products, Operations Canada; and Peter Hart, who has recently been appointed as the Vice President of Pulp and Paper Sales and Marketing.

For the second quarter of 2015, Canfor reported shareholder net income of \$11 million and Canfor Pulp reported shareholder net income of \$18 million.

In regard to Canfor Pulp, NBSK pulp shipments were lower in Q2 versus Q1, primarily due to scheduled maintenance outages at several facilities in the second quarter. Global list prices were down in the quarter, and overall sales realizations reflected lower pricing in all regions.

The Canfor Pulp Board declared a special dividend of \$1.125 payable in August. While we continue to invest heavily in our business through internal CapEx and the share buybacks, we do not foresee a near-term accretive acquisition opportunity. As a result, we believe it is appropriate to return a significant amount of capital to our shareholders.

Softwood inventories are at the high end of the balanced range heading into the seasonally slower summer period, so there is some risk of downward pressure on global softwood prices in the third quarter.

Lumber markets continue to face challenges in Q2, particularly SPF pricing in the US, which fell to its lowest level since 2012. Prices have started to recover, and are expected to appreciate modestly through the year-end.

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »

The decrease in lumber price resulted in a 7 percent average export tax on Canadian shipments to the US. Our offshore shipments rose by 17 percent, demonstrating continued demand and confidence in our SPF and SYP products in offshore markets. The US housing market showed continuing signs of recovery in the second quarter, and we are cautiously optimistic that we'll see improvement in the US market for the remainder of the year.

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** — Chief Financial Officer, Canfor Corporation

Thank you, Don, and good morning, everyone. My comments this morning will focus principally on our financial performance for the second quarter of 2015 by reference to the previous quarter. Full details of our results are contained in the Canfor Pulp and Canfor news releases which were issued yesterday.

As always, you'll find an overview slide presentation on the Canfor and Canfor Pulp websites in the Investor Relations section under Webcasts. The presentation highlights consolidated and segmented results, and I'll be referring to this presentation during my comments.

For the second quarter of 2015, Canfor reported shareholder net income of \$11 million, or \$0.08 a share. And that was down from \$29 million, or \$0.22 a share reported for the first quarter of 2015 and down from \$54 million, or \$0.39 a share reported for the second quarter of 2014.

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »

On Slide 3 of our presentation we highlight various nonoperating items net of tax and noncontrolling interest which affect the comparability of our results between the respective quarters.

In the second quarter of 2015, positive mark-to-market adjustments on derivative instruments had a net impact of approximately \$8 million, or \$0.06 a share, and a mark-to-market gain on Canfor's investment in Lakeland Mills and Winton Global Lumber, reflecting the sale of the investment subsequent to quarter-end, had a net impact of approximately \$6 million, or \$0.05 a share.

After taking account of these adjustments, the second quarter adjusted shareholder net loss was \$2 million, or \$0.02 a share, compared to similarly adjusted net income of \$47 million, or \$0.35 a share for the first quarter of 2015.

You will see on Slide 4 of our presentation that Canfor's second quarter operating income was \$18 million, a decrease of 66 million from the previous quarter. The decrease reflected lower operating earnings in both the lumber and pulp and paper segments.

Results for the lumber segment are highlighted on Slide 5 of our presentation. The current quarter's operating income for the lumber segment was \$5 million, down 43 million from the previous quarter. The decrease principally reflected lower lumber prices, a 7 percent average export tax on Canadian shipments to the US, and a slightly stronger Canadian dollar.

Our total lumber production was up 5 percent from the previous quarter, reflecting our continued growth in the US South, and to a lesser extent, productivity agreements across all regions.

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »

Improved production and lower cash conversion costs reflecting the productivity gains, as well as relatively stable log costs, resulted in lower unit manufacturing costs in the quarter.

Lumber shipments were up 17 percent, reflecting strong offshore shipments in the current quarter, as well as the contribution from our recent US South acquisitions and the aforementioned productivity improvements.

Canfor's pulp and paper segment comprises the results of Canfor Pulp Products Inc. As you can see on Slide 6 of our presentation, Canfor Pulp reported net income of \$18 million, or \$0.25 a share, compared to net income of \$28 million, or \$0.40 a share, for the previous quarter, and net income of \$19 million, or \$0.27 a share, for the second quarter of 2014.

Staying on Slide 6, Canfor Pulp's second quarter net income after taking account of onetime nonoperating items net of tax was \$13 million, or \$0.18 a share. This represents a \$22 million, or \$0.32 per share decrease from the adjusted net income of \$35 million, or \$0.50 a share for the first quarter of 2015.

As you will note from Slide 7 of our presentation, Canfor Pulp's lower earnings mostly reflected the impact of scheduled maintenance outages at our Intercontinental, Prince George, and Taylor Pulp Mills during the quarter, as well as lower unit sales realizations, which reflected both lower prices in all regions, and to a lesser extent, the slightly stronger Canadian dollar and increased shipments to lower-margin regions.

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »

Pulp shipments increased 7 percent from the previous quarter due to a full quarter of shipments from the Taylor Pulp Mill, as well as the smaller increase in shipments to China. Pulp production levels were up 2 percent from the previous quarter, also reflecting the contribution from the Taylor Pulp Mill.

Lower operating earnings for our paper operation in the quarter reflected the impact of a scheduled maintenance outage, coupled with a small decrease in prices, and to a lesser extent, the impact of the slightly stronger Canadian dollar.

On April 1st, we completed the acquisition of the Southern Lumber mill in Mississippi. The cash cost of this acquisition was US \$51 million and was financed by US dollar cash on hand.

And just after quarter-end, as I mentioned earlier, on July 1st Canfor sold its 33.3 percent investment in Lakeland Mills Limited and Winton Global Lumber Limited for a total cash consideration of \$30 million.

During the second quarter, we repurchased approximately 410,000 common shares of Canfor at an average price of \$24.15 per share and 138,000 common shares of Canfor Pulp at an average price of \$14.51 per share.

Capital spending in the second quarter totalled \$49 million, of which 34 million was in the lumber business and 13 million in Canfor Pulp. 2015 total capital spend is currently projected to be approximately \$170 million for Canfor and \$70 million for Canfor Pulp.

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



Yesterday, the Canfor Pulp Board announced a dividend payment of \$0.0625 per share for the quarter, consistent with the first quarter. In addition, as Don mentioned, a special dividend of \$1.125 per share was also declared, reflecting the strong free cash flow of the Company over the last 18 months.

At the end of Q2, Canfor, excluding Canfor Pulp, had net debt of \$267 million with available liquidity of \$207 million. Canfor Pulp had net cash of \$40 million with available liquidity of 118 million. Net debt to total capitalization, excluding Canfor Pulp, was 16 percent, for Canfor Pulp it was negative 8 percent, and on a consolidated basis it was 12 percent.

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

**Don Kayne**

Thanks, Alan. And, Operator, we'll now go ahead and take questions.

---

## Q&A

**Operator**

Thank you, sir. We will now take questions from financial analysts. If you have a question, please press \*, 1 on your telephone keypad. And if you are using a speakerphone, please lift your receiver and then press \*, 1. If at any time you wish to cancel your question, please press \*, 2.

Please now press \*, 1 if you have a question. Note that there will be a brief pause while participants register for questions. Thank you for your patience.

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »

And your first question will be coming from the line of Sean Steuart at TD Securities. Please go ahead.

**Sean Steuart** — TD Securities

Thanks. Good morning, everyone. A few questions on let's start with the pulp business, I guess. The thinking on the special dividend as opposed to just increasing the regular dividend, can you go into a bit of detail on the rationale for that decision?

**Don Kayne**

Sure, Sean. It's Don. I mean clearly we looked at several options. I mean as we've spoken about over numerous quarters, number one concern, of course, has always been to maintain a strong balance sheet. We recognize we've had some good cash flow over several quarters, and so we looked at what we could do in addition to some of the share buybacks that we've been having, and we felt that this would be the best way to give some of that money back to some of the shareholders.

So we looked at that. We looked at—of course, as you also know, we've commented on possibly some M&A. And as Alan, I think, mentioned in his comments, we haven't seen anything yet that we thought would be accretive enough to justify, so this is what we thought was the best vehicle to use.

**Sean Steuart**

Okay. Thanks, Don. And then on the downtime you had in the second quarter on the pulp side, is it possible to put a dollar figure on the EBITDA impact from that downtime?

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »

**Don Kayne**

Brett, either you or....

**Alan Nicholl**

Yeah. Good morning, Sean. Typically we wouldn't guide to that. What I can say, it was a fairly significant factor, as I mentioned in my comments. It along with the lower unit sales realizations were the two biggest factors, as you would expect.

I think what I could say is that the increase in costs that we did see resulting from those maintenance outages pertains to Q2, and we would expect the second half results to reflect a more normal cost profile.

**Sean Steuart**

Right. Okay. Thanks, Alan. And then last one for me and I'll get back in the queue. On the lumber side we've seen a convergence in Western Canadian and Southern Pine lumber prices in recent weeks. Do you guys have a perspective on are we getting close to an equilibrium spread between the two regions? Is this close to normalizing at this point?

**Don Kayne**

Wayne, why don't you answer Sean on that?

**Wayne Guthrie** — Senior Vice President of Sales and Marketing, Canfor Corporation

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »

Yeah. It's Wayne. Yeah. We think the big spread that was there earlier in the year—as you say it's come back in the normal—by the end of the year we think it will be back to where it's been historically.

So if you look at the two before benchmark prices, we're thinking there'll be about a \$50 spread by the end of the year.

**Sean Steuart**

Okay. Thanks, Wayne. I'll get back in the queue.

**Don Kayne**

Thanks, Sean.

**Operator**

Thank you. Your next question will now be coming from Mark Wilde at BMO. Please go ahead.

**Mark Wilde — BMO**

Good morning.

**Don Kayne**

Good morning.

**Mark Wilde**

The first thing I wondered is just a request, and that is we've got the two biggest lumber producers in North America and you guys have your calls almost right on top of each other. So just

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »

going forward I wondered if we could see you guys separate the timing a little bit; that would be helpful.

And moving from that, I wondered, Don, if you or some of the other guys could just talk a little bit about the continued strength in exports that you're seeing to China?

**Don Kayne**

Yeah.

**Mark Wilde**

It really is quite impressive and a little bit counter intuitive, given what we hear about China these days.

**Don Kayne**

Yeah. For sure, Mark, and that's a good question; one we get often. And I'll just make one quick comment and I'll get Wayne to provide maybe a little more colour and a little more detail there. But overall, as you accurately stated, we've seen continued progress in China on a number of fronts, not only on volume, but also on some of the products that we're selling there overall, and so we really haven't experienced any of the—some of the negative that you certainly hear out there. And so we remained positive through the first half of this year.

And going forward we're very positive on the future there, not just this year, but also moving forward over the next three, four, five years. It's a good story, and we think it's going to continue and there's tonnes of opportunities.

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »

So, Wayne, why don't you talk about some of the specifics, though? I think Mark would probably find it interesting.

**Wayne Guthrie**

Sure, sure. Thanks, Don. Just add to what Don said there, and I understand that it does conflict with some of the headlines that are out there. If we decided to do the same thing we did over the last few years, which is just try to sell low-grade in the big major cities, we'd be struggling in China too, but the reality is that in the interior cities and in new products and particularly in some of the higher-value products there's opportunities that we're uncovering there every quarter.

So our business is changing. We're having to reinvent ourselves there, but we continue to find new opportunities. We're very excited about continuing along that. We also think, just on an aside, that the worst maybe behind us in terms of some of the slowdown. We may start to see some infrastructure even by the end of the year start to come back again.

So you can't be complacent in China. You got to be looking for new opportunities every quarter, but they're there if you get at them.

**Mark Wilde**

Okay. And then, Don, just also on kind of on lumber pricing, there's been kind of a disparity between what's happened in the futures market the last week or two and what some of the trade reporting services are coming up with. Can you help us understand that?

**Don Kayne**

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »

Yeah. Wayne, why don't you...

**Wayne Guthrie**

Sure.

**Don Kayne**

Speak to that?

**Wayne Guthrie**

Well, I don't think we want to comment too much on the highly, highly speculative futures market here, particularly at one spot in time. But our position is, right or wrong, you're looking at an open interest of less than 4,000. So it's very, very thinly traded. It could be influenced one way or the other quite easily. We do not draw a direct correlation between what we're selling wood for today and what that is indicating.

**Mark Wilde**

Mm-hmm.

**Wayne Guthrie**

The reality is, to your China comment earlier, commodity hedge funds have decided that commodities are negative, and so they're shorting a lot of commodities, and we get kind of caught up in that swell. But what we're seeing on that board is not reflective of what we're seeing in the cash market today.

**Mark Wilde**

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »

Okay. All right. Just two other questions; one is can you address the fire situation out there?

And what that effect may have on your business as we move through the third quarter?

**Don Kayne**

Yeah. Absolutely, Mark. I'll get Stephen to do that. He's very current on that whole situation.

**Stephen Mackie** — Vice President, Operations Canada, Canfor Corporation

Sure. Thanks, Don. Good morning, Mark. Yeah. I guess what I would say about the fire situation today is that there's no significant fires affecting our operating areas today or at this time. However, there is significant risk out there.

Conditions are extremely dry, and with lots of fires burning across Western US and Canada and surrounding regions there are limited resources to action fires in response when they do occur. So our folks, and our contractors, and our operation personnel remain very vigilant through the fire season. We've got a long summer still ahead of us. So there is risk to our operations, but we're not being materially impacted today.

**Mark Wilde**

And, Stephen, how long does the fire season usually run for you guys out in BC?

**Stephen Mackie**

That's a good question as well, and it started much earlier this year than typical. And I can't really predict the weather patterns, but it will go out through September.

**Mark Wilde**

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



Okay. All right. The last question I had is just is it possible to get some sense for the difference in margins between the Southern US operations right now and the Canadian operations?

**Don Kayne**

Mark, so the sense we'll give you is it's better in the south.

**Mark Wilde**

Not surprising, given southern log prices, I guess.

**Don Kayne**

Yeah. Well, I mean but in all fairness we don't provide that guidance that directly, but it is definitely safe to say the returns that we're getting in the southern part of the United States, southeastern where we primarily operate are definitely stronger than what they would be in BC.

**Mark Wilde**

Okay. All right. That's helpful. Thanks, Don.

**Don Kayne**

Okay.

**Operator**

Thank you. Your next question will now be coming from Paul Quinn at RBC Capital Markets.

Please go ahead.

**Paul Quinn — RBC Capital Markets**

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »

Yeah. Thanks. Good morning, guys. Just following up on Sean's question just for some additional help, I mean it looks like we missed wildly on the quarter on Canfor Pulp, and it looks to be not so much on the pulp realizations, but on the maintenance downtime. Can you give us any additional help on the maintenance downtime? Was it bigger in the quarter than it usually is? Because those costs were significant higher than I expected.

**Don Kayne**

Yeah. For sure, Paul. And I'll maybe get, Brett, you can comment on that to Paul.

**Brett Robinson** — President, Canfor Pulp Products Incorporated

Yeah. So the shuts were not abnormal. The costs maybe were a little bit higher as we took on some major work, but we would expect that to come back to normal. We do have the big Northwood shut at the end of Q3 moving into Q4. And we would suggest the realizations were the biggest impact on the quarter.

**Paul Quinn**

Okay. And then just on the—getting back to the CapEx guidance of 70 million on Canfor Pulp. What are those projects that you're spending the 70 million on?

**Brett Robinson**

We would be focused on energy projects first. We do have some load displacement ideas. We're really working hard on figuring out Taylor today. That one's still to be determined. And then

beyond that it would be cost-reduction focused and create opportunities—or sorry, opportunities to creep production where we can.

**Paul Quinn**

Okay. And then do we expect the CapEx level, the spending level, to be at 70 million going into '16? Or does it fall back after that?

**Brett Robinson**

No, we would expect to retain that going forward.

**Paul Quinn**

Okay. And then just switching over to the lumber side, just trying to figure out where lumber prices are going for the balance of the year? What are you guys anticipating? Or, Wayne, what do you anticipate with the expiry of the softwood lumber agreement?

**Wayne Guthrie**

You know what, Paul? It's going to be—I don't know if we can draw a direct correlation between that event and what we think prices are going to do. I think what we're going to try to focus on here is we bottomed out six or eight weeks ago. We've been grinding a little bit higher. We might have to give a little bit back here just because it's gotten slow in the summer again.

But we just think if you draw a line between today and the end of the year we're going to have just a slow, steady, and kind of back to where we were in '13 and '14 prices so that we think '16 will be better.

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »

So we'll kind of go back towards that—into the low 300s somewhere by the end of the year. During those events, so the when the tax changes and the expiry of that, that'll create some short-term volatility for sure and always does. And there's always lots of emotion around those. But taking short-term volatility out and just looking at between now and the end of the year, I think as Alan said in his comments, it's just going to be a slow grind higher back to where we've been historically.

**Paul Quinn**

Okay. Thanks for that. And then just last question just on, I guess, log inventory volumes in front of your lumber mills. I guess there's been a number of curtailments or just workarounds for the fire season. Are those significantly lower? Or are they about normal for this time of the year?

**Don Kayne**

We're a normal situation on logs, Paul.

**Paul Quinn**

Great. That's all I had. Best of luck, guys. Thanks.

**Don Kayne**

Okay. Thanks, Paul.

**Operator**

Thank you. Next you have a follow-up question from Sean Steuart. Please go ahead.

**Sean Steuart**

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »

Hey, guys. A follow-up on Taylor; I think we have a decent sense of that mill's contribution, or lack thereof this quarter, as you used to be able to back into the results. I'm wondering if you can give I guess your take on BC TMP markets, which are under, I guess, relatively severe pressure right now? And just long-term thoughts on what you can do to position that mill to be a long-term survivor in the industry?

**Don Kayne**

Maybe, Brett, you can take that or...

**Brett Robinson**

Sure. Thanks, Sean. So BC TMP markets absolutely are off considerably, and we see that continuing in Q3. We would see some moderate rebound into the end of Q3/Q4, but that will be dependent on the China market, and not indifferent to the lumber side. We are seeing better indications there.

The Taylor Mill, we're still building our strategic plans for that mill, but we're very excited about the potential to reduce its cost structure. It hasn't had a lot of capital investment over the last many years, so we'll work through towards a good strategic plan, but we're pretty excited about where we'll get that mill long term.

**Sean Steuart**

Any context on what some of the capital—discretionary capital projects there could be?

**Brett Robinson**

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »

Yeah. For sure our priority right now is the BC Hydro funding, and really what we're looking at is efficiency-related projects that will recapture steam, repurpose that into the process, push gas out, and reduce our electricity costs. It's still early days to give you much more detail than that.

**Sean Steuart**

Okay. Thanks for the detail, Brett.

**Brett Robinson**

You're welcome.

**Operator**

Thank you. And your next question will now be coming from the line of Daryl at Raymond James. Please go ahead.

**Daryl Swetlishoff — Raymond James**

Hi, guys. I'm sitting here watching the Canadian dollar fall below \$0.77, and with the high sensitivity that especially Canfor Pulp's earnings have, would this move precipitate—I know historically in the past you haven't hedged—but would it make sense to lock in some of these potential gains over the next year?

**Alan Nicholl**

Yes. Good morning, Daryl. Appreciate where you're coming from there. I think we continually revisit our hedging strategy, and as you're probably aware, we can vary the amount of hedging we do quite a lot just depending on various factors.

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »

I think there's so much volatility in the markets and in FX, Daryl, that it's a tough one to call, but it's something that we'll continue to look at closely. Today we've got hedges going out, existing hedges going out to Q3, and we'll look at putting more in place in due course. We don't have any plans right now to layer on any more at this point, but it is something we are watching closely.

**Daryl Swetlishoff**

Okay. Thanks for that, Alan.

**Operator**

Thank you. And your next question will now be coming from the line of Mark Kennedy. Please go ahead, sir. Your line is open.

**Mark Kennedy — CIBC**

Good morning. I guess just a question, Don, on what you're seeing for log costs here for the balance of the year. Do you expect them to stay stable? Or are we looking at any creep?

**Don Kayne**

Never too many treats (phon), but overall, Mark, probably SPF and Southern Yellow Pine combined we're looking probably in the neighbourhood of 1 to 2 percent.

**Mark Kennedy**

Okay. Okay.

**Don Kayne**

Just kind of overall for the balance of this year.

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »

**Mark Kennedy**

And any visibility yet on your SPF log costs like in the BC interior there as you look into 2016?

Do you think there's more cost push coming? Or not?

**Don Kayne**

Well, probably a little, and it's a little bit early to tell yet in terms of where that's going to end up, but we expect just moderate inflation next year at this stage. And the same statement would be applied to Yellow Pine as well.

**Mark Kennedy**

Okay. And then on the lumber side, just I guess recent thoughts on where you think inventory levels are at in the distribution system in the US? Like the sense I get is things are more hand to mouth. Would you sort of agree with that? And is that potentially setting the stage for some upside price surprises here at some point?

**Don Kayne**

I think you're pretty accurate on the inventory side for sure from what we're seeing. But, Wayne, why don't you maybe comment on that and the second part of that question?

**Wayne Guthrie**

So we think our inventory is in great shape. Our transportation supply has been excellent. Our customer takeaway has been very good, so our inventory is at or below plan.



We think our customers are expecting to have a very, very good third quarter in the US, commensurate with the numbers that you're seeing projected out there. And so we don't think there's any inventory buildup in the distribution system on the North American side, or for that matter even on the offshore side.

I think there's a lot of speculation of some short-term volatility because of tax changes and SLA and those types of issues, but it does look like a pretty good third quarter. So we don't want to predict prices here, but there's nothing from an inventory standpoint that would lead us to be overly negative.

**Mark Kennedy**

Great. Thanks very much.

**Operator**

Did you have further questions, Mr. Kennedy?

**Mark Kennedy**

No, no, that's it for me.

**Operator**

Thank you. And at this time, Mr. Kayne, we have no other questions registered, sir.

**Don Kayne**

All right. Thank you very much, Operator, and thanks everyone that joined the call, and we look forward to talking to you at the end of Q3.

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



Thank you.

**Operator**

Thank you, sir. Ladies and gentlemen, this does conclude your conference call for today.

Once again, thank you for attending, and at this time we do ask that you please disconnect your lines.

Have yourselves a great day.

\*\*\*\*\*

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »