CORPORATE PARTICIPANTS

Don Kayne
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Alan Nicholl
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Alistair Cook
Senior Vice President, Wood Projects Operations

Wayne Guthrie
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CONFERENCE CALL PARTICIPANTS

Paul Quinn
RBC Capital Markets

Mark Kennedy
CIBC World Markets

Sean Steuart
TD Securities

PRESENTATION

Operator

Good morning, ladies and gentlemen. Welcome to the Canfor Corporation Fourth Quarter Results 2011 Conference Call.

A recording of the call and a transcript will be available at Canfor's website. During this call, Canfor's Chief Financial Officer will be referring to a slide presentation that is available in the Investor Relations section on their website. Also, the Company would like to point out that this call will include forward-looking statements, so please refer to the press release for the associated risks of such statements.

I would now like to turn the meeting over to Mr. Don Kayne, President and CEO of Canfor Corporation. Please go ahead, Mr. Kayne.

Don Kayne, President & Chief Executive Officer

Thank you, operator. Good morning, everyone, and welcome to Canfor's conference call to discuss the Company's fourth quarter results for 2011.

I am calling in from Beijing this morning, as I am part of the business delegation participating in Prime Minister Harper's mission to China. I will speak very briefly about our Q4 highlights before turning the call over to Alan Nicholl, our Chief Financial Officer. Alistair Cook, our Senior Vice-President of Wood Products Operations, and Wayne Guthrie, our Senior Vice-President of Sales and Marketing are also with me today as well to answer any questions you may have specific to their responsibility areas.

Our year-end financials paint a picture of a company that continues to invest in its operations despite challenging market conditions. On balance, while Q4 was challenging Canfor's solid productivity gains and continued strong balance sheet positions the Company to thrive as economic conditions improve. We continue to see slow but reassuring demand signals from our key markets and I will speak to that later.

Yesterday we reported an adjusted loss from continuing operations of $32 million on sales of $576 million for the fourth quarter and negative EBITDA of $16 million, excluding inventory valuation adjustments, closure provisions and asset impairment charges. Alan will speak to our financial performance shortly. The Q4 loss is attributable in large part to lower low grade market prices and higher log costs.

Conditions in the United States housing market remained relatively steady over the quarter, in line with forecast expectations. We continue to anticipate that further 18 to 24 months will be necessary to see the U.S. return to more normal demand levels though we are encouraged to see positive demand signals coming from the U.S. as compared with Q4 of last year.

In November, overall British Columbia year-to-date exports reached $1 billion, a tremendous achievement brought about by a decade of strategic market development investment by the BC and Canadian governments and forest companies.

Canfor's Asian Pacific business continued to be very strong. Offshore lumber shipments were 15 percent higher this quarter as compared with Q4 of 2010, reflecting continued growth in shipments to China. Sales volume to Japan and Korea also experienced increases over last year. We continue to see strong growth prospects for wood markets in Asia and continue our aggressive market development activities to grow the uptake of wood frame construction in China and also across Asia. Our market strategy in China is increasingly focused on China's major developers and builders targeting those companies that have the capacity to build with wood at a significant scale in the country.

Unseasonal weather patterns continued throughout our operations in Western Canada. This combined with higher diesel costs and increased hauling costs contributed to the increased in unit log costs experienced in Q4.

Overall lumber production was up 7 percent compared to the fourth quarter of 2010 for a total 867 million board feet. These production increases are the result of solid productivity improvements and the restart of the Vavenby division sawmill and are partially offset by the closure of the Clear Lake mill in early 2011.

Our capital investment program is delivering solid results to our cost performance and productivity is strengthening across the operations. We remain very confident in our Asia-Pacific markets and exceptional customer base in China, Japan, Korea, and several of the other Asian countries. As demand recovers in North America and continues to grow in Asia, Canfor will be well positioned to prosper.

At this point I'd like to now turn the call over to Alan to discuss Canfor's financial performance in the quarter.

Alan Nicholl, Chief Financial Officer

Thank you Don, and good morning everyone. My comments will be principally focused on our financial performance for the fourth quarter of 2011 by reference to the previous quarter. In my comments, I'll be referring to our fourth quarter overview slide presentation, which you will find on our upgraded website in the Investor Relations section under Webcasts. Full details and amounts are contained in our news release issued yesterday afternoon.

For the fourth quarter of 2011 we reported an equity shareholder net loss of $44 million or $0.31 per share. This compares to a shareholder net loss of $22 million or $0.15 per share for the third quarter of 2011 and shareholder net income of $33 million or $0.23 per share for the fourth quarter of 2010.

On slide three of our presentation we highlight various non-operating items net of tax of and non-controlling interest, which affects comparability of results between the third and fourth quarters. The most significant of these in Q4 was a provision of $17 million relating to the announced closures at our Rustad and Tackama manufacturing operations with both operations closing down in January 2012. After taking account of all of these non-operating items, which totalled $12 million or $0.09 per share, the fourth quarter adjusted net loss was $32 million or $0.22 per share. This compares to a similarly adjusted net loss of $2 million or $0.01 per share for the third quarter of 2011, a decrease of $30 million or $0.21 per share.

With respect to our fourth quarter operating performance, you will see on slide four of our presentation that reported EBITDA was negative $16 million, a decrease of $71 million from the prior quarter. This variance includes the previously mentioned closure provisions as well as asset impairment charges and inventory valuation adjustments. Removing these impacts, the adjusted EBITDA for the fourth quarter of 2011 was $26 million compared to $54 million in the third quarter. That's down $28 million. The decrease reflected a weaker lumber and residual chip sales realizations, lower pulp prices, increased unit log costs, as well as (inaudible) higher cash conversion costs. More on these factors in a few moments when I discuss the individual segment performance.

Slide five shows the Western SPF benchmark random lengths prices for 2x4, #2&Btr, and Utility #3 lumber grades. This graph indicates that while the #2&Btr price saw little changed from the previous quarter, significant declines were seen in prices for lower grades. This reflected slowing construction activity in China in part related to the Lunar New Year as well as an increasing use of #2&Btr product by Chinese customers. As you might expect, the weaker lower grade prices had a negative impact on our sales realizations in the fourth quarter.

Turning to slide six, here you'll see that the lumber segment's reported EBITDA was negative $34 million in the fourth quarter of 2011, a $44 million decrease from the prior quarter. After adjusting for one-time items EBITDA for the lumber segment was negative $5 million in the fourth quarter of 2011 and this compares to positive EBITDA of $11 million in the third quarter of 2011, a decrease of $16 million. Sales realizations were down in the fourth quarter primarily reflecting the impact of the lower grade prices, as I mentioned, offset in part by the weaker average Canadian dollar in the period.

Shipments of Canfor-produced lumber were in line with the previous quarter, although production was down 7 percent reflecting downtime taken at our sawmills over the Christmas period which, along with the seasonally higher energy usage that we saw in the fourth quarter, resulted in a modest increase in unit cash conversion costs. The fourth quarter also saw a moderate increase in unit log costs, with the combination of a shortage of log truckers in parts of the BC Interior, higher diesel prices, and unseasonably mild weather all contributing factors. The milder weather resulted in lower than normal volumes at logs being harvested and delivered to our sawmills in the period.

Now turning to the Pulp and Paper segment on slide seven, you see that fourth quarter EBITDA was $39 million, which was down $12 million compared to the third quarter. North American NBSK list pulp prices fell about 7 percent, reflecting softening global demand, although the weaker average Canadian dollar mitigated the full impact of this. Pulp production was up from the third quarter following the completion in October of the Northwood Pulp mill upgrade. Pulp unit cash manufacturing costs were down from the previous quarter, reflecting the higher production levels in the period as well as lower fibre costs. More details of Canfor Pulp's results were discussed in their news release and conference call earlier this week.

Capital spending for the fourth quarter totalled $116 million. $49 million of this was for the lumber business and $67 million was for Canfor Pulp. Of the latter, $27 million related to the reimbursable Green Transformation Program. For 2011 as a whole we spent approximately $155 million in capital projects in our lumber business and by year end we had completed about two-thirds of our $300 million strategic capital investment program. At the end of the quarter Canfor, excluding Canfor Pulp, had available liquidity of $377 million, comprised of $31 million of cash and $346 million of available lines of credit. Net debt to total capitalization excluding Canfor Pulp was about 8 percent and including Canfor Pulp approximated 13 percent.

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

Don Kayne, President & Chief Executive Officer

All right. Thanks very much, Alan, and operator, I'd like to open up the call now to any questions.

QUESTION AND ANSWER SESSION

Operator

Certainly. We will now take questions from the telephone lines. We'll first take questions from the financial analysts, followed by the media. If you have a question, please press star one on your telephone keypad. If you are using a speakerphone, please lift your receiver and then press star one. If at any time you would like to cancel your question, please press the pound sign. Please press star one now 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 Paul Quinn of RBC Capital Markets. Please go ahead.

Paul Quinn, RBC Capital Markets

Yeah, good morning and I guess good evening, Don. Just a question on Softwood Lumber Agreement. Maybe you could comment on the extension and give us an update on the current arbitration.

Don Kayne, President & Chief Executive Officer

Okay. Well, I guess on the extension, as I think everybody is aware of, we did come to an agreement there to extend it for through to 2015, and so we, you know, we felt that we certainly supported that and while it's imperfect I guess to some degree what it does do is give certainly to the marketplace and also to producers. So I guess the next step there will be as we move forward here as we prepare for 2015 to work towards a strategy in terms of eliminating that as we go forward beyond 2015.

In terms of the arbitration, the SLA arbitration that's also in place, ah, before for the London Court, that's going to be dealt with here over the next, I guess, week to ten days here in terms of that arbitration, and then we expect some sort of a decision on that. It will take some time, perhaps two or three months, we're not exactly sure how long but probably somewhere in that timeframe, Paul. So, again on that, we are extremely positive that we have a very, very strong case, we've had a strong case from the start, and we expect that we will have a positive judgment against us or a positive judgment with us on that when the decision is finally made.

Paul Quinn, RBC Capital Markets

On the lumber pricing you mentioned the low-grade prices in Q4; what have you experienced in early 2012 and what's the expectation going forward?

Don Kayne, President & Chief Executive Officer

I think that, you know, hopefully—we're seeing to start to get more normal, although it's still not where it once was for sure, but part of that is positive story. From the standpoint that I think it was touched on a little bit earlier, Paul, is that #2&Btr prices are being supported much more overseas than they have been in the past. We're seeing what we hope to see, and that is more support for the higher-value products over there, beginning with #2&Btr but not limited to #2&Btr. So that's created a lot of that spread. And so we're having to deal with that as a company and as an industry.

How are we dealing with that? Well several ways. Probably the two key ones though are with our capital program. Obviously we are spending several dollars on the back-end of our sawmills in the planer and optimization area to just reduce the volume that we get of that overall, and also to continue to look at new markets in addition to China, which will still take a significant amount of low grade. So we're seeing, you know, that low grade prices are starting to move up to some degree. Whether they will get back to where they were, it's too early to tell and, frankly, I don't think they will personally. I think we'll see more of the benefit in higher #2&Btr prices.

Paul Quinn, RBC Capital Markets

Okay. And lastly you talked about milder weather reflecting I guess lower log inventories in front of your mills; how acute is that and how are you relative to the rest of the industry?

Don Kayne, President & Chief Executive Officer

On that one, Alistair, maybe I'll let you answer that specifically, because in terms of the numbers, you've probably you got those in front of you in Vancouver.

Alistair Cook, Senior Vice President, Wood Projects Operations

Sure, Thanks, Don. Paul, you know, no question we're experiencing some weather challenges in certainly in areas that we operate; however, you know, we're very confident that we have seen March targets that we want to hit and for all intents and purposes we have actions in place to meet those targets for March.

Paul Quinn, RBC Capital Markets

All right, great. Thanks guys. Best of luck.

Don Kayne, President & Chief Executive Officer

Thanks, Paul.

Operator

Thank you. The next question is from Mark Kennedy of CIBC World Markets. Please go ahead.

Mark Kennedy, CIBC World Markets

Good morning. Don, just a question, and it's kind of interesting that you're in China right now because obviously we're hearing a lot of talk about property prices falling and real estate prices falling there, but also I think the other fact is there is sort of two markets of China, there is the sort of private market and then there is the government-sponsored market. Could you just give us a sense of how much wood is sort of flowing into each of those and your expectations for this year?

Don Kayne, President & Chief Executive Officer

Yes, I can, at sort of a high level, Mark. A couple of things. Certainly from a commercial aspect, commercial pricing and commercial real estate prices in China, certainly there has been a drop in some of the major metropolitan areas here, you know, from Guangzhou, Shanghai, all the way up into Beijing. No question, some of the major areas have seen that overall. But, we don't, you know, as a lumber producer we don't really participate too much in that side of the business, so it's really, I would say, had marginal impact on us certainly as a company. It wouldn't be material.

But on the other side of it really, the area that we're really focused on and the upside there is tremendous and we're seeing some uptake there, is on the affordable housing side. And one of the meetings that we had here again as a result of the strong relationships that have been built here with our federal government and NRCan through Minister Oliver as well as our Minister of Forests in the Province of BC, Steve Thomson as well as Pat Bell. We've been able to really make some progress there with the Vice Minister of Construction there. He has been a big promoter of green building, a big promoter of this whole affordable housing side of the business.

So we, you know, in terms of the uptake really is on that side, and that is the, as you probably heard, is the area where they're planning and delivering on building up to ten million affordable homes per year over the next five years. So significant volumes. And it's all try to deal with the large income gap between the lower level of people as opposed to the wealthy people. So there is a lot of work being done there and that's really where we see the huge opportunity over and above the progress that we've made today, and that was again solidified and confirmed with the meetings that we've had just this past week with the Vice Minister in China.

Mark Kennedy, CIBC World Markets

And then you also mentioned in your introductory comments there that clearly the U.S. housing market isn't healed yet but you said you're seeing some positive demand signs in the fourth quarter of this year compared to the fourth quarter of last year. Could you just give us a little more colour on that?

Don Kayne, President & Chief Executive Officer

I think that, you know, as we've all read and we've all seen, you know, as we follow some of the positive news, at least relatively positive news in terms of unemployment rates and additional jobs that are being created in the United States, it seems to be a pretty sustainable trend that we've seen here for the last several months. I think that that's, first of all, obviously positive, and that's translated into, in our view, a bit better positive outlooks from some of the pro dealer customers that we deal with, as well as the DIY customers, some of the bigger, the big box stores that we deal with and others do as well. We're seeing a bit better takeaways from that customer base overall.

So I think the mood, a little bit of the, um, certainly the consumer mood that we're seeing out here has improved to some degree. We've got a long way to go and we're by no means at all going to adjust any of the conservatism that we have in place today going forward, which is largely going to continue to have our focus around market diversification.

Mark Kennedy, CIBC World Markets

One last question, just on the, sort of the transportation costs issues you've been experiencing in the Interior BC. Is that really just a temporary thing or is this more of a sort of structural shift that given the pressures you get from the oil patch and other areas you're just sort of stuck with this higher cost level of transport?

Don Kayne, President & Chief Executive Officer

I think just generally speaking in all levels of transportation there is definitely continuing inflationary pressures on trucking rates overall, whether that's logging truck drivers or whether that's just standard over the road truck drivers. I think we're seeing that. You know, there is obviously the significant competition from all the manufacturing facilities in any industry to get to the ports more and more as more volumes being exported and so forth, and a lot of volume does move by truck. So I guess that, you know, we're just continually looking at ways that we can try to manage that inflation that we speak about. But it is definitely an issue and going forward I think it's something that we're going to have to continue to battle as the economy improves.

Mark Kennedy, CIBC World Markets

Okay, thank you.

Operator

Thank you. The next question is from Sean Steuart of TD Securities. Please go ahead.

Sean Steuart, TD Securities

Thanks. Good morning and good evening everyone. Don, just wondering if you can talk a little bit about the pending acquisition of the Tembec sawmill and cutting right assets. If you can go into a bit more detail I guess on your plans to improve the margins of those mills. It's our understanding they were in line with the Tembec's average sawmill margins, which had been below industry average obviously for quite some time, but I guess your plans to improve margins there and how it fits into the rest of the asset base that you have in the area.

Don Kayne, President & Chief Executive Officer

Yeah, for sure, I mean, as you say accurately, Sean, you know, with that acquisition we'll have a very solid, very high-quality fibre base in the area. Some of the best fibre we think in the country is located in that area so we're real excited about moving forward and closing that deal. It will close, but it's not closed yet, as you probably know. It won't be closed probably—at this point we're expecting mid March, that type of timeframe. We're in the process right now. Alistair and his fellows are in the process of evaluating that whole area there in terms of what we want, what we think it should look like from a strategic standpoint going forward operationally. So that's still to be determined and we're not, we haven't made any firm decisions yet exactly on anything long-term planning there yet. That will be certainly over the next probably 60 to 90 days.

In terms of the opportunities there, aside from the excellent fibre there, it fits very well with Canfor's strategy, which is always been, as you know, to focus hard on the, ah, some of the appearance grades in both North America and offshore markets. We think that it's going to provide a lot more upside for us to increase those value-added products, particularly in, well, in North America, but I think even more particularly in some of the markets in Asia, particularly Japan. I don't think that in the past, you know, everybody has different marketing strategies, I don't think Tembec marketed as much in Japan from a percentage wise as we did, so we think there is some upside there for sure that we can capitalize on and we intend on doing that going forward. And then on the rest of it, I mean there is, you know, I guess the other big opportunity there is that they have three, they have the FSC certification, and that certainly will provide us with some additional opportunities that we don't have today, and it also will be one of the few producers that have all three certification systems that we can offer to our global customer base. So we think that's a positive and also an opportunity to improve margin going forward.

Sean Steuart, TD Securities

Great, that's good detail. Thanks, Don.

Operator

Thank you. We will now proceed with questions from the media. Please press star one if you have a question.

Once again, please press star one if you have a question.

There are no further questions at this time. This concludes the conference call. Please disconnect your lines and we thank you for your participation.

Don Kayne, President & Chief Executive Officer

All right, thanks to you all for participating and I look forward to speaking with you again at the end of next quarter. Thank you.
