CORPORATE PARTICIPANTS

Don Kayne
President & Chief Executive Officer

Alan Nicholl
Senior Vice President, Finance & Chief Financial Officer

CONFERENCE CALL PARTICIPANTS

Daryl Swetlishoff
Raymond James

Mark Kennedy
CIBC World Markets

Chris Damas
BCMI Research

Paul Quinn
RBC Capital Markets

Mark Kennedy
CIBC World Markets

David Rochow
Desjardins Capital Markets

PRESENTATION

Operator

Good morning, ladies and gentlemen. Welcome to the Canfor Corporation First Quarter Results 2012 Conference Call.

A recording of the call and a transcript will be available on 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 of 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 and such statements.

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

Don Kayne, President & Chief Executive Officer

Thank you, operator, and good morning, everyone, and welcome to Canfor's conference call to discuss the Company's first quarter results for 2012.

Before I get started today I wanted to take few moments to reflect on the tragic explosion at Sinclar Group's Lakeland Mill in Prince George on Monday night. Canfor holds a one-third ownership stake in Sinclar Group, so this incident is very, very close to home. Twenty-four employees from the mill were taken to hospital and two men have lost their lives to this tragedy. Of course our concerns are with the entire Lakeland team and their families, most particularly those that were injured. We are also conscious of the fact that this is the second serious fire in six months in a BC Interior sawmill. While it is much too early to speculate on the possible cause of the Lakeland fire, this, combined with the recent explosion at Babine Forest Products in Burns Lake, is cause to redouble our focus on safety.

Now, returning to the quarter, I will speak briefly about our quarter one highlights before turning the call over to our Chief Financial Officer, Alan Nicholl. Alistair Cook, our Senior Vice President of Wood Products Operations and Wayne Guthrie, our Senior Vice President of Sales and Marketing are also available today as well to answer any questions you may have specific to their responsibility areas.

Canfor reported a net loss of $16.2 million over the first quarter of 2012 on sales of $607.6 million. Improving lumber market conditions in the U.S. are encouraging and we did see some positive pressure on North American lumber prices over the quarter. These gains were unfortunately offset by continued weakness in offshore low-grade prices. With inventories in China returning to more normal levels we expect to see marked improvement in low-grade prices over quarter one. Also encouraging is that we continue to see a steady improvement in productivity and unit conversion costs at our lumber operations. These gains reflect our targeted capital expenditures and a strong focus on continuous improvement across our operations.

In quarter one we successful completed our acquisition of Tembec's Southern BC solid wood assets, adding approximately 1.1 million cubic meters of annual timber harvesting rights and 420 million board feet of lumber production to our capacity. This acquisition is a significant element in continuing to strengthen our overall fibre quality across the Company. We were pleased to complete that deal and welcomed the new divisions to Canfor in March. We also completed further capital projects in the quarter as part of our $300 million three-year strategic capital investment program. Investments in quarter one included a planer upgrade at the Grande Prairie sawmill, which was completed on time and on budget and is currently exceeding expected targets.

Overall, quarter one showed slow but steadily improving operating performance and market conditions and as we look ahead we are reasonably optimistic that continued steady gains in the U.S. housing market and the rebound of low-grade prices in China will lead to improved results in quarter two.

I will now turn things over to Canfor's Chief Financial Officer, Alan Nicholl, to provide more details concerning our Q1 financials.

Alan Nicholl, Senior Vice President, Finance & Chief Financial Officer

Thank you, Don, and good morning, everyone.

My comments will be principally focused on our financial performance for the first quarter of 2012 by reference to the previous quarter. In my comments I will be referring to our first quarter overview slide presentation, which you will find on our website in the Investor Relations section under Webcasts. Full details and amounts are contained in our news release issued on Wednesday evening.

For the first quarter of 2012 we reported an equity shareholder net loss of $16 million of $0.11 per share. This compares to a shareholder net loss of $44 million or $0.31 per share for the fourth quarter of 2011 and a shareholder net income of $7 million or $0.05 a share for the first quarter of 2011.

On slide three of our presentation we highlight various non-operating items net of tax and non-controlling interest which effect comparability of our results between the fourth and first quarters. The net impact of these items in the first quarter was to improve net earnings by $6 million or $0.05 a share. The more significant items in the first quarter included foreign exchange gains on long-term debt and gains on various financial derivatives as well as the transaction costs related to the acquisition of Tembec's Southern BC wood product assets, and more on this transaction in a few moments. After a taking account of these non-operating items the first quarter adjusted net loss was $22 million or $0.16 a share. This compares to a similarly adjusted net loss of $32 million or $0.22 a share for the fourth quarter, an improvement of $10 million or $0.06 a share.

With respect to our first quarter operating performance, you will see on slide four of our presentation that reported EBITDA was $24 million, and this was an increase of $39 million from the prior quarter. After excluding fourth quarter mill closure and asset impairment provisions as well as quarter-over-quarter inventory valuation adjustments and the aforementioned Tembec transaction costs, adjusted EBITDA for the first quarter of 2012 was $19 million compared to $27 million in the fourth quarter (inaudible) million. For the most part this decrease reflected weaker results in the pulp and paper segment. More on our operating performance in a few minutes when I speak to the individual segment performances.

Slide five show the Western SPF benchmark lumber prices for 2x4 #2&Btr and #3 utility lumber. This graph indicates that while the #2&Btr price saw increases from the prior quarter, lower-grade products lagged early in the period. This reflects the slowing construction activity in China, in part related to the Lunar New Year as well as an increasing use of #2&Btr products by Chinese customers. Weaker low-grade prices at the end of 2011 and into early 2012 had a negative impact on our sales realizations in the first quarter as much of our offshore pricing is negotiated quarterly in advance. As a side note, and as Don referred to earlier, we are seeing a good improvement in our offshore low-grade prices to date this quarter.

Turning to slide six you will see that the lumber segment's reported EBITDA was $3 million in the first quarter of 2012 and this represented an increase of $70 million for the prior quarter. After adjusting for inventory valuation movements and unusual items, EBITDA was negative $5 million in the first quarter of 2012, a slight improvement from the prior quarter. Shipments of Canfor-produced lumber were up slightly compared to the fourth quarter, principally from additional production made available for sale. The higher production reflected both Christmas shuts in the prior quarter as well improved productivity that we saw in the current period. Sales realizations were largely unchanged in the first quarter, as improved North American pricing was offset to a large degree by market realizations from offshore markets, principally China. The first quarter also saw a reduction in residual fibre (inaudible) used as a result of lower market pulp prices. This impact was partially offset by lower cash conversion costs resulting from our increased production and lower log costs in the current period after some of the challenges presented last quarter by the unseasonably milder weather.

Turning to the pulp and paper segment on slide seven you'll see that we reported first quarter EBITDA of $29 million, and this was down $11 million compared to the fourth quarter. North American NBSK list pulp prices fell about US$50 per tonne, reflecting a continuation of the softening global demand that we saw in the last half of 2011. Pulp production was up 7 percent from the fourth quarter following the completion in October of the extended Northwood pulp mill recovery boiler upgrade. Unit cash manufacturing costs were down from the previous quarter, reflecting those higher production levels as well as lower saw mill residual chip costs paid to lumber producers. More details of Canfor Pulp's results were discussed in their news release and conference call earlier this week.

Capital spending for the first quarter totaled $54 million. Of this, $27 million was for the lumber business and there was an equal amount at Canfor Pulp. We received $8 million related to the reimbursable Green Transformation Program in the quarter. At the end of the first quarter of 2012 we have completed about two-thirds of our $300 million strategic capital investment program for our lumber business. In late March we completed the acquisition of Tembec's Southern BC wood products assets for a cash consideration of approximately $65 million. This included a preliminary net working capital payment and this working capital payment is subject to final closing adjustments which will occur in the second quarter.

During the first quarter the Company also issued new term debt totaling $100 million, which was used to fund the above noted acquisition, as well as the repayment of $50 million of privately placed senior notes. This new debt is non-amortizing, floating rate debt with a maturity of February 2017. By the beginning of the second quarter of 2012 $100 million of floating to fixed interest rate swaps have been completed to take advantage of the current low interest rate environment. At the end of the first quarter Canfor excluding Canfor Pulp had net debt of $280 million with available liquidity of $238 million. The higher net debt position at the end of the first quarter reflected the Company's normal first quarter log inventory build. Net debt to total capitalization excluding Canfor Pulp was around 20 percent. Including Canfor Pulp it was around 22 percent.

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

Don Kayne, President & Chief Executive Officer

Thanks, Alan. Operator, I would now like to open the call for questions.

QUESTION AND ANSWER SESSION

Operator

Thank you. We will now 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 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 at this time if you have a question. There will be a brief pause while the participants register for questions. Thank you for your patience.

The first question is from Daryl Swetlishoff of Raymond James. Please go ahead.

Daryl Swetlishoff, Raymond James

Good morning, everybody. Don, first question relates, um, how do the two tragic mill explosions we have seen in the region affect how Canfor is going to be processing mountain pine (beetle) logs in the short term here?

Don Kayne, President & Chief Executive Officer

Thanks, Daryl. I think, well, first of all, probably more so what we are really focused right now on in the absence of any definitive reasons for both of those explosions actually that occurred up there, we're really just focused now on making sure that, ah, while up to now we feel we've had exceptionally good systems in place to manage the dust issues that has been talked about a lot, even though it's not been confirmed that's exactly what was the causes, but regardless we are taking a very proactive approach here across all our operations to even advance further and have even a harder look at the processes and make sure that the ones that we have in place are solid. And, more importantly, make sure that every single operation that we have within the Company is safe for our employees going forward. So we've got a lot of initiatives underway now, including several things that we are working on. I won't get into details obviously but this weekend we have talked to some of our key competitors as well to make sure we're capitalizing on the overall benefits between all the companies to capitalize on all the knowledge together. So we are doing a lot of proactive things. We're not taking anything for granted here, we're not making assumptions; we're just focused hard on making sure that we have the right processes in place to prevent anything from happening in the future.

Daryl Swetlishoff, Raymond James

Okay. Thanks for that. I understand China's shipments have been steady. What's your best guess today—I know you have a good view on China and what's your best guess today and what sort of year-over-year improvement we might see in offshore shipments?

Don Kayne, President & Chief Executive Officer

Daryl, I mean that's, ah, from our standpoint, despite the fact we had a little bit of probably a decrease in Q4, but Q1 for the most part it's bounced back in a positive way, and with what's going on in China in kind of the segments that we operate within, as you know, more on the residential side as well as the remanufacturing side and the concrete forming side, we haven't seen any reductions now. As a matter of fact, it's looking good on into quarter two. And in terms of overall we would say we at least hold our own and we're actually hoping to see an increase of somewhere in the neighborhood of 10 percent or more in China this year, with some increase too in the higher grades.

Daryl Swetlishoff, Raymond James

That's great. Now we are seeing some signs of life in the U.S.; how would Canfor's Chinese shipment policies change in the event we did see a material increase in U.S. prices? How would that change things for you?

Don Kayne, President & Chief Executive Officer

Well actually, you know, as you know, we've added production this year with the capital we spent. We've got Vavenby now at full production, we've completed here some modernizations at Prince George sawmill, at Grande Prairie with the Tembec acquisition, we feel we have got more, we are going to have more product available anyway. I guess our strategy though overall or our view overall going forward is to clearly support the Chinese market and all the key customers that have been supporting us through this last five years of difficult periods. And that goes for everywhere in Asia for that matter and in Canada too. However, at the same time, we also have a significantly strong customer base in the U.S. and we will make sure that we get product available for them as well going forward, wherever they are.

Daryl Swetlishoff, Raymond James

Thanks, Don. I'll turn it over.

Operator

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

Mark Kennedy, CIBC World Markets

Good morning. Don, first of all, is it too early yet or can you give us any guidance on sort of volume and timing of product out of that East Kootenay region now?

Don Kayne, President & Chief Executive Officer

Well, I mean it will be subject to a few things but I mean the production capacity at the two mills is 420 million feet. So for now I think you could just take basically nine months of that, take nine months' volume of that equivalent and we would expect to ship that this year. We are not anticipating any curtailments there, if that's what you are getting at, at all. We should we operating at normal production levels.

Mark Kennedy, CIBC World Markets

And then in 2013, because that CapEx plan you have announced for your Radium sawmill, um...

Don Kayne, President & Chief Executive Officer

Yeah, that should add, for 2013 that will add a couple of hundred million feet to that number.

Mark Kennedy, CIBC World Markets

Okay. And then just if you can just remind us again as you look forward here, have you hedged forward very much of your lumber volume at all and are you intending just to sort of ride out this market in case we do get some positive pricing movements down the road?

Don Kayne, President & Chief Executive Officer

Yeah, in terms of hedging—I am assuming you are talking about the futures market there—yes, for sure. You know, we do participate in that market where when it makes sense over and above what we do on a day-to-day cash basis with our customer base, but there is variability in that and we just make those decisions as it may make sense on a weekly, monthly basis. But we don't have any, you know, at this stage there is no concrete strategy. That's a bit of, you know, that's something that is pretty dynamic and it just kind happens when we think there's the opportunity present.

Mark Kennedy, CIBC World Markets

And then, just finally, if you can just comment just generally in terms of your net realizations, I mean your average in Q1 probably lagged a little bit sort of what the reference SPF price was in Q1, and how do you see that changing moving into Q2?

Don Kayne, President & Chief Executive Officer

Yeah, I think that I would say that Q1 was probably one of the lowest levels of spreads that we have seen for a while, and the two main areas of course were the low-grade pricing into China, which were a significant discount compared to historical to #2&Btr, particularly on the narrow widths, and also the other area that affected us that was on the short lengths.

We have two mills that produce primarily short lengths and the discounts for short lengths were higher than normal. Going forward we've already seen those in both cases collapse significantly and we expect that going forward for the balance of this year that that will be back to more typical spread levels.

Mark Kennedy, CIBC World Markets

Okay, great. Thanks.

Operator

Thank you. Our next question is from Chris Damas of BCMI Research. Please go ahead.

Chris Damas, BCMI Research

Yes, good morning. You didn't take your share of the partnership's cash flow for the first two months of the quarter; is that because you are going to get the dividend for all three months? Is that a wash for you?

Don Kayne, President & Chief Executive Officer

I'm not sure—can you repeat that question? I'm not sure...

Chris Damas, BCMI Research

On Canfor Pulp. I'm sorry. You didn't take your share of the partnership's cash flow prior to March 2 when you did the exchange of partnership units for stock. I just wondered if that was because you are going to get the three-month dividend that's payable shortly. I think it was (inaudible) I think on Wednesday. So I believe it's cash flow neutral.

Don Kayne, President & Chief Executive Officer

Yeah, I would say, I mean we might have to get back to you on that exactly, because I am not sure we understand. We were just talking as you were talking there and maybe we will have to get back to you on that later and follow up in more detail on that, because we're not really sure we're 100 percent in sync there with the question. So rather than dwell on it on the call, if that's okay with, you we will get back to you.

Chris Damas, BCMI Research

(Inaudible). And, secondly, it seems like Groundhog Day where every April we get a rally in the SPF futures and things look a little better and then the thing dies. So today we are up again close to the high of 297. There is a fair bit of volume so I am not sure if it's all speculative. We've seen some housing starts increasing but most of it is multiunit and we had a big revision in February new home sales to 353. Ironically it was down this month for March. So I am just wondering do you think it's going to die again? I mean we don't really have a lot of new single-family dwellings built and they are probably a lot smaller than in the past.

Don Kayne, President & Chief Executive Officer

Yeah, just—I mean we don't think it's going to die. I mean we're obviously very cautious and conservative and we're not basing anything on some significant price increases either but we certainly where we are at today is sustainable and we could see further increases. And the reasons primarily are the aside from some of the positive permanent numbers we just saw indicating some pretty good future housing starts going forward we do believe still there is very low inventory levels in the United States overall, and everywhere too for that matter. That's having a definite positive impact.

We see the home center business, the retail and remodeling markets, to be somewhat rebounded and looking promising going into Q2, which they typically do, but this year we are seeing even more of that. And also the Asian business is not only—we talk a lot about China and Japan, which has been solid and continues to be, but we are also seeing some business in some of the other Asia countries more than in the past, and we're seeing a bit of a rebound as well in the Middle East. So if you take a look at all of that in view of production levels, which we don't think have really increased all that much, we're not totally surprised that there has been a bit of an improvement here in prices, and we don't see huge increases from here but we also don't see any measureable decreases either.

Chris Damas, BCMI Research

Okay. Thanks for that, Don.

Operator

Thank you. Once again, please press star one if you have a question. Our next question is from Paul Quinn of RBC Capital Markets. Please go ahead.

Paul Quinn, RBC Capital Markets

Thanks very much. And, sorry, I got on the line late, I was just on a different conference call, so you might have addressed this, but just you guys have got a pretty good read on China, I just want to see what your outlook is going forward here. It seems like that has been a substantial decrease over the last couple of quarters, primarily on logs but also on lumber, but what do you see for the balance of the year?

Don Kayne, President & Chief Executive Officer

For sure. We did talk about that briefly but I can definitely speak again about it. It's basically, Paul, that China, as you accurately indicate, Q4 was a bit tougher for several reasons, primarily inventory builds and the Lunar New Year, as we all spoke about. Going forward though we have seen a rebound in Q1 across the board both on low-grade volumes but also on high-grade volume, so we had a real good quarter overall, in our view anyway.

Going forward, you know, we haven't really seen any real stress there in terms of any decreases or whatnot. Overall this year we are, and I'll give you an order of magnitude, we believe that that we will see probably close to 10 percent in terms of volume increases into China this year. The other encouraging thing we're seeing in China is a real increase in the prices in China relative to North America, and we expect that to continue for the balance of the year along with continued improvement in volumes of the higher grades.

Paul Quinn, RBC Capital Markets

Okay. And in terms of that mix shift for the volume of the higher grades, what have we seen or what does that data look like year to date in 2012 here versus 2011/2010. Are we growing that percentage?

Don Kayne, President & Chief Executive Officer

Yeah, it is. It grew quite a bit the last couple of years. We're probably running in the neighborhood, I don't have it right in front of me here, but probably around 40 percent, something like that. But we think that can go much higher. I mean clearly the Chinese are recognizing that the higher grades give them a lot better recovery in some of the remanufacturing plants across the country. So we are seeing more and more of the #2&Btr being used. And even higher grades than that for that matter.

Paul Quinn, RBC Capital Markets

In terms of the efforts, government and company efforts on getting wood frame construction going in China, how is that progressing and what have we got going forward?

Don Kayne, President & Chief Executive Officer

I mean we are still progressing. It's definitely the goal that we, I think we all have as industry. We see the uptake potential there is significant going forward. It's going to continue to take real aggressive promotional efforts and coordinated industry and government efforts, like we have been doing the last five years, but I guess the thing we need to keep focusing hard on is going forward continuing that. I think there has been, you know, from all my conversations with, certainly with the government, there is no, we haven't seen any back off there at all, and so that... But that is what we are focused on going forward. And it's not all just single family housing. As we have said before, it's applications within some of the multifamily applications, and multistory too for that matter. So there is a lot more use in some of those applications but, frankly, as long as it is being used in wood frame construction we're not so concerned whether it's single or multifamily.

Paul Quinn, RBC Capital Markets

Okay. And then just flipping over to the U.S. market, what do you see as the biggest issue of the U.S. housing recovery?

Don Kayne, President & Chief Executive Officer

Probably just the recovery around employment, and that impact on foreclosures. But both of those, you know, despite the fact they have come down from the peak, that's still a concern, but I do believe they are making solid progress there. I guess the other concern could be depending on Europe, right, and that whole Europe issue around the sovereign debt issue. If that were to become significantly negative again it could have some negative impacts in the U.S. In terms of the U.S., I guess the other one would just be the credit availability. I mean we have heard, you know, there continues to be stress there just on available credit to finance new homes, and in existing homes too for that matter, right, from the consumer standpoint. So that probably is another one that we watch. But overall I think we are seeing better numbers and it has given us a little more confidence that the recovery there is at least underway.

Paul Quinn, RBC Capital Markets

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

Operator

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

Mark Kennedy, CIBC World Markets

Just a follow up question, Don. I mean you're obviously focused on completing your internal improvements program still but I am just interested in your thoughts as you look at growth opportunities in the solid wood business. I mean there's sort of two schools, right? You can be more cautious and wait until markets have definitely gotten to a different point, but then price points of doing things might increase as well. Just wondering your thought process on that.

Don Kayne, President & Chief Executive Officer

Well I guess you are right on the fact of being of being cautious for sure, and we will continue to be absolutely and make sure, number one, that we preserve our balance sheet whatever we do. But I think that, you know, and I have spoken about this before, but I think for us the key factor is fibre, and making sure whatever we do it's based on strengthening our fibre position, which we have been focused on for the last few years and particularly lately. And we think that's absolutely critical to our long-term sustainability and success. And so anything we do do will be, you know, a large component of that will be based on that. So going forward we just continue to look as things arise and, um, both for SPF but also for southern yellow pine, because we are really pleased with that business as well now and we see some optimism there as well going forward.

Mark Kennedy, CIBC World Markets

Okay, thanks.

Operator

Thank you. Our next question is from David Rochow of Desjardins Capital Markets. Please go ahead.

David Rochow, Desjardins Capital Markets

Good morning. I was just wondering if you could comment a little bit on the Tembec acquisition that you made this quarter. Actually last quarter and closed this quarter. Does this affect in any way the system in terms of taking higher cost capacity offline or does it change the asset mix whatsoever?

Don Kayne, President & Chief Executive Officer

Well in terms of, you know, that Tembec acquisition was based on a couple of things. Number one, we felt that the timing was right. Tembec was in a position where it wasn't part of their core business and were looking to do something with that asset and at the same time we were looking for an opportunity to essentially significantly improve our fibre base in the southern part of the province.

And in addition to improving our fibre base in the southern part of the province, we also, which is a key part of our thinking going forward, is making sure that that fibre base is aligned with our customer base and the products that that customer base requires. And what you get down in that southern part of the province is exceptionally good fibre. It’s big fibre, it’s high-quality fibre, and it makes a lot of high-value products, which we are very focused on to try to differentiate ourselves away from relying on the #2&Btr market. So that’s really that whole.... So in terms of what that adds to our overall asset mix is just really strengthens or fibre mix and significantly increases our percentage of non-beetle fibre that we have across the Company, particularly in British Columbia.

David Rochow, Desjardins Capital Markets

Okay, that’s great. That’s all I had. Thank you.

Operator

Thank you. We have 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, President & Chief Executive Officer

Thank you, operator, and we look forward to talking to you during the next quarter.
