

CORPORATE PARTICIPANTS

Don Kayne

President & Chief Executive Officer

Alan Nicholl

Senior Vice President, Finance & Chief Financial Officer

Alistair Cook

Senior Vice President, Wood Projects Operations

Brett Robinson

President, Canfor Pulp Products Inc.

Wayne Guthrie

Senior Vice President, Sales & Marketing

Sean Curran

Vice President, Sales & Marketing

CONFERENCE CALL PARTICIPANTS

Pierre Lacroix

Desjardins Capital

Sean Steuart

TD Securities

David Quezada

Raymond James

Mark Kennedy

CIBC World Markets

Benoit Laprade

Scotia Bank

Paul Quinn

RBC Capital Markets

Joe Licursi

BMO Capital Markets

PRESENTATION

Operator

Good morning, ladies and gentlemen. Welcome to the joint Canfor Corporation and Canfor Pulp Products Inc. Third Quarter Results 2012 Conference Call. A recording of the call and a transcript will be available on Canfor's and Canfor Pulp's website.

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

Don Kayne, President & Chief Executive Officer

Thanks, operator, and good morning, everyone. Thank you for joining us this morning on what is the first joint Canfor and Canfor Pulp quarterly results conference call.

I will briefly discuss our third quarter results before turning the call over to Alan Nicholl, who will speak to the financials for both Canfor and Canfor Pulp. With me today is Brett Robinson, President of Canfor Pulp, Alistair Cook, Senior Vice President of Wood Products Operations, Wayne Guthrie, our Senior Vice President of Sales and Marketing, and Sean Curran, our Vice President of Sales and Marketing for Canfor Pulp. So my colleagues and I will take your questions following Alan's remarks.

Canfor Corporation posted a profitable quarter in quarter three with consolidated operating income of \$22.3 million, down slightly from our Q2 performance of \$26 million. Numbers from our lumber operations were positive with operating income for the quarter of \$34.9 million compared to \$18.9 million in quarter two. Our Canfor Pulp Products posted a quarterly loss in Q3, with an operating loss of \$8.2 million, down from Q2 operating income of \$10.4 million.

Pulp and paper results were below expectations. These results are in part driven by overall lower NBSK list prices, one-time expenses for lump-sum payments for union contracts, and restructuring costs related to management changes combined with below-target operating rates. The Prince George mill completed its annual planned maintenance outage in conjunction with \$50 million of capital upgrades and one line of the Northwood mill restarted after an unplanned outage in June. With the completion of the Northwood plant maintenance outage in October all facilities have returned to normal operation.

As you are aware, Canfor Pulp announced a suspension of its dividend for the quarter. The Board decision reflects the very challenging quarter both from a market and operational perspective. The Board will continue to review the dividend level each quarter and their decision will take into account of markets, operational performance, capital requirements, and any other relevant factors at the time.

Lumber markets improved moderately in the third quarter of 2012, reflecting solid demand in both North American and offshore markets. U.S. housing activity continued the upward trend seen in the prior quarter with housing starts for the quarter reflecting a seasonally adjusted annual rate of 786,000, which is up 7 percent from the previous quarter. Canadian housing starts were down 3 percent from the previous quarter to 223,000 units on a seasonally adjusted annual rate, and up 8 percent however from the third quarter of 2011. Market conditions in China continued to reflect solid demand and demand in Japan also remained solid throughout the quarter.

Global softwood pulp market weakened through the summer months with price erosion occurring for most of the quarter. Overall in the markets we saw NBSK pulp pricing bottom in Q3 as producer stocks increased and summer demand dropped off. We are expecting to see some moderate recovery in Q4 driven by fall maintenance shuts, seasonal demand uptick, and strengthening euro and Canadian dollar. Also encouraging is that we continue this year steady improvement in productivity and unit conversion cost at our lumber operations. These gains reflect our targeted capital expenditures and a strong focus on continuous improvement across all operations.

Throughout the quarter we have executed on our capital programs to upgrade our Radium mill, which will reopen next week, and we are extremely pleased to be in a position to restart what will be a top-performing facility as market conditions continue to improve.

At this point I'll now turn things over to Alan Nicholl to provide some more details on our quarter three financials. Alan?

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

Thanks, Don, and good morning, everyone. My comments will be principally focused on our financial performance for the third quarter of 2012 by reference to the second quarter.

I will discuss the results of Canfor first and then turn to Canfor Pulp. In my comments, I'll be referring to our third quarter overview slide presentation which you will find on either the Canfor or Canfor Pulp websites in the Investor Relations section under webcasts. Full details and amounts are contained in the Canfor news release issued yesterday and the Canfor Pulp news release that was issued on Monday.

For the third quarter of 2012 Canfor reported an equity shareholder net income of \$22 million or \$0.16 a share. This compares favorably to shareholder net income of \$5 million or \$0.03 a share for the second quarter of 2012 and a shareholder net loss of \$22 million or \$0.15 a share for the third quarter of 2011.

On slide three of our presentation we highlight various non-operating items net of tax and non-controlling interest which affect comparability of results between the second and third quarters. The net impact of these items in the third quarter was approximately \$7 million or \$0.05 a share and related to foreign exchange gains on long-term debt, gains on various financial derivatives net of restructuring costs related to the integration of Canfor Pulp. After taking account of these non-operating items, Canfor's third quarter adjusted net income was \$15 million or \$0.11 a share. This compares to similarly-adjusted net income of \$11 million or \$0.08 a share for the second quarter of 2012, representing an improvement of \$4 million or \$0.03 a share.

With respect to Canfor's third quarter operating performance you'll see on slide four of our presentation that reported operating income was \$22 million, a decrease of \$4 million from the prior quarter. Excluding quarter-over-quarter inventory valuation adjustments, the adjusted operating income for the third quarter was \$22 million, up \$3 million from the \$19 million reported for the second quarter. The increase reflected higher lumber sales realizations but weaker pulp results, the latter being primarily due to the lower market prices that we saw in the quarter. I will speak more on Canfor's operating performance in a few minutes when I discuss the individual segment performances.

Slide five shows the Western SPF benchmark lumber prices for 2x4, #2&Btr and U.S. housing starts. U.S. lumber demand continued to slowly improve during the quarter reflecting historically low mortgage rates and the continued gradual strengthening of housing markets. The 2x4 #2&Btr price in Canadian dollars was relatively unchanged in the quarter but price increases were seen for certain other grades and widths. Total seasonally-adjusted U.S. housing starts averaged around 786,000 units in the third quarter, a 7 percent increase from the previous quarter. The September seasonally-adjusted

number was 872,000, representing the highest level in almost four years.

Turning to slide six you will note that Canfor's lumber segment reported operating income of \$35 million for the third quarter, an increase of \$60 million from the previous quarter. The improvement in the results largely reflected the improved sales realizations in both North American and offshore markets with sales reflecting both improved market prices and, in the case of shipments to the U.S., a lower average export tax rate. Overall, operational productivity at our mills was up slightly from the previous quarter despite a 2 percent drop in total production and largely offset the effect of market-related stumpage price increases on our log costs.

Turning to slide seven, Canfor's pulp and paper segment comprising both the results of Canfor Pulp products and Canfor's Taylor BCTMP pulp mill recorded a third quarter operating loss of \$7 million, \$19 million worsening of results from the previous quarter. And with that, I'll now turn to the results of Canfor Pulp Products.

As you will see from the slide eight, Canfor Pulp Products recorded a net loss of \$5 million or \$0.06 a share for the third quarter of 2012. This compared unfavorably to net income of \$3 million or \$0.05 a share for the second quarter and net income of \$24 million or \$0.33 a share for the third quarter of 2011. Canfor Pulp reported an operating loss of \$8 million, a decrease of \$19 million from the previous quarter. The decrease reflected lower NBSK pulp prices and shipments as well as the one-time cost that Don alluded to earlier.

As you will see on slide nine, the Pulp segment's operating loss for the third quarter was \$8 million, a decline of \$17 million from the second quarter. North American list prices were down about \$60 per tonne from the previous quarter on a Canadian dollar basis, reflecting a 5 percent decrease in U.S. list prices as well as the \$0.015 stronger Canadian dollar over the quarter. While pulp production was up slightly quarter over quarter, shipments were down almost 16,000 tonnes due to the weaker market conditions and the effects of the Prince George pulp mill outage in the current period. Unit manufacturing costs were slightly higher reflecting the lump-sum payment related to the new five-year collective bargaining agreements with the Company's unions partially offset by the impact of the higher production volume.

Turning to slide 10, Canfor Pulp's paper segment reported third quarter operating earnings of \$5 million, and this was in line with the previous quarter. An increase in realized sales prices in the quarter was offset by a 6,000 tonne reduction in shipments that principally

reflected timing. Price realizations were positively impacted by increased paper prices and a higher percentage of (prime) bleached product. At the end of the quarter, Canfor Pulp had a net insurance receivable of \$7.5 million as a result of the on-schedule shutdown of the Northwood recovery boiler in the second quarter. The Company received advanced payments from insurers of just under \$3 million in the third quarter.

As Don mentioned, the Canfor Pulp Products Board suspended dividend payments in the quarter. The Board will be reviewing the dividend every quarter and will take account of key financial drivers, both external and internal, in making their determination of amounts going forward.

Total capital spending for Canfor and Canfor Pulp for the third quarter amounted to \$54 million, of which \$24 million was for the lumber business and \$30 million for Canfor Pulp. Canfor Pulp has now completed its Green Transformation Program spending and in the third quarter collected a final \$10 million reimbursement connected with that program. The \$30 million bridge loan credit facility that was initiated to help manage cash flow timing differences from this program was also terminated in the quarter.

At the end of September Canfor excluding Canfor Pulp had net debt of \$187 million with available liquidity of \$322 million. Canfor Pulp had net debt of \$120 million with available liquidity of \$32 million. Net debt to total capitalization excluding Canfor Pulp was around 15 percent, for Canfor Pulp it was close to 24 percent, and at the consolidated levels it approximated 19 percent.

With that, Don, I'll now turn the call back to you.

Don Kayne, President & Chief Executive Officer

Thanks, Alan. So I'd now like to open the lines up for questions.

Operator

Thank you. We will now take questions from the telephone lines. We'll take questions from the financial analysts. If you have a question please press star one on your telephone keypad. If you are using a speakerphone, please lift the handset and then press star one. If at any time you would like to cancel your question, please press the pound key. Please press star one at this time if you have a question. There will be a brief pause while participants register. Thank you for your patience.

The first question is from Pierre Lacroix of Desjardins Capital. Please go ahead.

Pierre Lacroix, Desjardins Capital

Thank you very much. Good morning. The first question I had is on the, ah, in the press release you mentioned that you had some weather-related issues in the U.S. south. Can you expand a bit on that?

Don Kayne, President & Chief Executive Officer

For sure. Just in the southeastern part of States, just that during the quarter there, there was just some significant weather and some tough weather conditions through the quarter that we had some impact on some of the operations overall.

Pierre Lacroix, Desjardins Capital

And where was that? Was it more in South Carolina or North?

Don Kayne, President & Chief Executive Officer

South and North Carolina, exactly.

Pierre Lacroix, Desjardins Capital

Okay, perfect. Also wanted to know a bit more about the mix going into China pricing and what do you see there.

Don Kayne, President & Chief Executive Officer

In terms of China, we continue to see a solid takeaway there as we've seen each quarter throughout this year and prior years. In terms of the product mix, continue to see improvements in terms of some of the higher grades, which continue to expand above and beyond just some of the low grades that you've heard us speak about before. But overall our view in China remains positive and working hard to continue to expand some of the opportunities in that market.

Pierre Lacroix, Desjardins Capital

What would be the percentage of shipments from Canada that you shipped to China?

Don Kayne, President & Chief Executive Officer

Just Canfor you're speaking about here?

Pierre Lacroix, Desjardins Capital

Yeah.

Don Kayne, President & Chief Executive Officer

Yeah. So about approximately 30.

Pierre Lacroix, Desjardins Capital

30 percent?

Don Kayne, President & Chief Executive Officer

Correct.

Pierre Lacroix, Desjardins Capital

And in terms of the pricing situation there, what is the breakdown between monthly, quarterly, and spot pricing?

Don Kayne, President & Chief Executive Officer

I think if there is some variability there and that can change but for the most part we're probably close half, yeah, probably close to have that's on a monthly basis and the rest is, and there's probably some percentage, 10 percent to 15 percent that will be quarterly, and the rest some other type of method.

Pierre Lacroix, Desjardins Capital

Okay. And it's based on the SPF 2x4 and better?

Don Kayne, President & Chief Executive Officer

Excuse me?

Pierre Lacroix, Desjardins Capital

And it's based on the benchmark grade, which is the SPF #2/Btr?

Don Kayne, President & Chief Executive Officer

Yeah, correct.

Pierre Lacroix, Desjardins Capital

Okay. And just one final on Radium: Are you expanding the capacity on the mill or it's going to be the same capacity as before?

Don Kayne, President & Chief Executive Officer

Te Radium will be up a somewhat for sure with the capital that we're putting in there. And that'd be up in the neighborhood of probably 5, 10 percent.

Pierre Lacroix, Desjardins Capital

5 to 10 percent. So around 200 million board feet?

Don Kayne, President & Chief Executive Officer

Yeah. Maybe a little slightly ahead of that but you're in the neighborhood for sure.

Pierre Lacroix, Desjardins Capital

Okay. Thank you very much.

Operator

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

Sean Steuart, TD Securities

Thanks. Good morning everyone. Alan, or Don I guess, a question on Canfor Pulp, and really as it pertains to the dividend policy, working cap requirements, maintenance schedules.

Can you comment on I guess the magnitude of available liquidity you're comfortable with, you know, appreciating that down at \$30 million, \$32 million that might be tighter than you're comfortable with in the current market context, but is there a level you target over a cycle in terms of available liquidity for Canfor Pulp?

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

Yes, Sean, good morning. So yeah, we're comfortable with that amount of liquidity, but we are, as you aware, we have a debt, (debt) U.S. dollars coming up for renewal here in the late fall of next year, so we're going to be looking at refinancing here before too long, just to make sure that we preserve our strong position. And with respect to kind of our comfort level around liquidity, we are keen, as you probably would guess, to keep and preserve our strong financial position in Canfor Pulp, so we'll be keeping a close eye on that.

Sean Steuart, TD Securities

And have you guys given thought around, I mean I appreciate you're saying you'll take this quarter by quarter but have you thought about a longer-term payout ratio target for Canfor Pulp in terms of long-term thinking around the dividend?

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

So the Board, as we indicated in the press release, will continue to look at this on a quarter-by-quarter basis, taking account of all of the factors that Don mentioned in his opening comments, Sean.

Sean Steuart, TD Securities

Okay. One last question, just an update with respect to Canfor Corp, I guess where you are on the discretionary CapEx spending in the sawmills, appreciating you're most of the way through the original \$300 million program and I know you're spending on your newer acquisitions as well, and then in relation to that can you give any thoughts on lumber acquisition opportunities in the U.S. south and opportunities you might be seeing there?

Don Kayne, President & Chief Executive Officer

Sure, Sean. First of all, you know, as you say, the CapEx program that is currently underway is progressing well and by the end of this year we should have, or, sorry, by the end of 2013 we'll kind of be where we said we would be on all of that. In terms of acquisitions, I mean that's just something, you know, it's something that's kind of normal course that we're looking out all the time.

Clearly that, as we said before, we like the south, we like the U.S. operations that we have invested in there already, so yes, we're looking at a lot of different opportunities, always are, as they come up, and so we'll obviously keep in touch, keep you updated on that as we move forward, but at this time I can't say too much more than that other than we definitely, you know, we're looking at those as they come up.

Sean Steuart, TD Securities

And, Don, at the risk of you not wanting to comment on this, I mean in a hypothetical world if some of these opportunities in the U.S. don't materialize I mean can you speak to interest in maybe taking in the minority stake in Canfor Pulp over the long run? Are you happy with 50.2 percent? You know, thoughts on potentially consolidating on investment?

Don Kayne, President & Chief Executive Officer

For sure. And I think, Sean, at this point what I can say is that we are certainly pleased with and, as far as I'm concerned, the 50.2 percent is the right number at this point. We have not considered that at all going forward. We think that it's very, it's solid to have the integration that we have in place today, the integrated companies that we have, and going forward we like that and so I don't see any change with that at all going forward, personally.

Sean Steuart, TD Securities

Okay. Thanks a lot, guys.

Operator

Thank you. Our next question is from David Quezada of Raymond James. Please go ahead.

David Quezada, Raymond James

Yeah, thanks. Just wondering if you guys could comment quickly on what you're seeing with sort of contractor availability, like loggers and truckers, both in the BC interior and also in the U.S. south, and how that would be affecting log costs going forward.

Alistair Cook, Senior Vice President, Wood Projects Operations

Sure. It's Alistair Cook here. It's a great question and we continue to work with our contractors in the areas. Trucking is becoming tight in all of the areas that we're working in today, spending a lot of time with our contractors around some of the opportunities that we can develop going forward. No question our log costs are under pressure in certain regions. Availability of fibre is not as close to the mills as it used to be so our hauling distances are becoming longer as we move forward. So great question and we continue to work with our contractors.

Don Kayne, President & Chief Executive Officer

And then just maybe to add to that as on the south, no material changes there at all. I mean log costs have been relatively flat there and no issues that I'm aware of.

David Quezada, Raymond James

Good stuff. Thank you.

Operator

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

Mark Kennedy, CIBC World Markets

Good morning. First, I guess a couple of questions on Canfor Pulp, so firstly, from an operational point of view, just wondering if you can give us any indication of when you are hoping to see production sort of get back to a more steady state level, because I would argue that we should be seeing production closer to 260,000 tonnes a quarter and the last couple of quarters obviously because of outages and downtime and different things we've been a bit below that level. So just wondering if you can give any guidance as to how you see that stepping up from Q4 going forward.

Don Kayne, President & Chief Executive Officer

Thanks Mark. I'll let Brett, maybe answer that question.

Brett Robinson, President, Canfor Pulp Products Inc.

Yeah, thank you. So with the one line of the Northwood mill restarted late last week we're through our planned outages and all facilities have returned to normal operations.

Mark Kennedy, CIBC World Markets

Okay. So aside from sort of normal maintenance next year we're pretty safe to be budgeting sort of rated capacity kind of thing?

Brett Robinson, President, Canfor Pulp Products Inc.

Correct, yes.

Mark Kennedy, CIBC World Markets

Okay. That's helpful. And then just another way of sort of looking at this dividend issue, because unfortunately as analysts we still have to figure out a way to project what could happen here, so if I took a scenario like next year, if Canfor Pulp had \$100 million of cash that it generated, and let's say your discretionary and non-discretionary capital was \$50 million, what would be a reasonable way to think about the dividend amount? Would it be a portion of that remaining \$50 million or would half of that remaining \$50 million go to debt repayment? Kike it's just hard for us right now just to see how we should be gauging this.

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

Yeah. So, listen, I have some sympathy given that I have been in an analytical role before having to look forward. I mean the reality here is this is a Board decision that's going to be made every quarter and ultimately will reflect a lot of the market sentiment and the outlook as well as our operating performance. And capital requirements too, because there are a number of potentially attractive

energy projects, Mark, but I think Brett and his guys will be keen to move on if they come to fruition.

Mark Kennedy, CIBC World Markets

But, like I said, in a scenario like that where there was a reasonable level of cash generation above and beyond capital requirement, you know, should we still be forecasting some percentage of dividend payout or should we not be forecasting anything and just if it happens, you know, just take it as it happens?

Don Kayne, President & Chief Executive Officer

I think maybe the way, and we totally appreciate, as Alan said, it's a difficult, difficult for you all to forecast, but I mean I guess going on forward, as we've said and you'll see going forward, we're going to just take a much more critical look at exactly how the quarter has performed as well as what our needs are going to be, both immediate and longer term in terms of CapEx and factoring in, you know, in terms of what we think the markets going to do and what not, and we're just going to take a lot of more of a critical look at it before we make that decision.

So in the scenario that you painted there, you know, that one probably would result in some change from where we are at today. But, again, it's hard to nail that down exactly without knowing some of those other considerations that I (meant). And I'm not trying to skate around at all, Mark, but it's just, you know, I guess just safe to say that we're going to look at performance and base the dividend a lot more on that combined with some of the future interruptions or future risks that we may see going forward. It's really as simple as that and it's really hard to get too much more concrete than that.

Mark Kennedy, CIBC World Markets

Okay. Okay. All right. No, that's fine. And then switching over to the lumber side now, just be kind of interested in getting your read on what you're seeing, especially in the U.S. distribution system, because clearly it looks like, you know, from the futures market and the cash market, the lumber price really bottomed three weeks ago and is showing some pretty good strength here in what normally is a pretty weak part of the year. So just be curious to see

if you have any other sort of anecdotal read on what you're seeing in terms of demand (pull) through the distribution and things like that.

Don Kayne, President & Chief Executive Officer

For sure, Mark. Maybe what I'll—I'll let Wayne speak about that maybe. Wayne?

Wayne Guthrie, Senior Vice President, Sales & Marketing

We're pleased that we've seen the demand that we have and the price appreciation we have in U.S. and, you're right, it's certainly going against the historical trends. I think it speaks to the continued demand offshore and so that we haven't seen a big rush of a product into the U.S. based on the higher prices. So I think all markets being healthy have helped the U.S. stay in balance in terms of inventory. I think business is a little bit better than most of our customers expected and as a result of that they're still in a position that they need to replenish inventory. It helped also too that we haven't really had any bad weather yet this fall. So yeah, it looks very positive and, quite frankly, yeah, we're pleased by the results and look forward to the balance of the quarter.

Mark Kennedy, CIBC World Markets

And just one last question, just in terms of your approach to the futures market here, like if we do see strength is your intention still to sort of just play a minimal role as far as any kind of hedging (inaudible) and pretty much just sort of take more or less the cash market as it comes next year?

Wayne Guthrie, Senior Vice President, Sales & Marketing

I think that we will analyze that on a day-to-day, week-to-week basis. I certainly don't want to comment on the day trading that's happening there today. It's positive, it's a good indicator, we'll use it when it's best for our company but, quite frankly, we'll stick with our strategic plan, we'll stick with our diversification, and we'll look at any opportunity that comes out.

Mark Kennedy, CIBC World Markets

Okay, great. Thanks guys.

Operator

Thank you. Our next question is from Benoit Laprade of Scotia Bank. Please go ahead.

Benoit Laprade, Scotia Bank

Thank you. Just curious to whether your CapEx plans for the rest of this year and for 2013, if you can split it between pulp and lumber?

Don Kayne, President & Chief Executive Officer

Go ahead, Alistair, on the lumber side.

Alistair Cook, Senior Vice President, Wood Projects Operations

Sure. Alistair Cook here again. It's our intent to continue to invest in our mills pending market conditions and cash availability. We still want to execute on our \$300 million capital plan, which we're roughly two-thirds of the way through. So we'll continue to look at opportunity to invest over the next four quarters.

Don Kayne, President & Chief Executive Officer

Pulp side, Brett, maybe you can just comment on that.

Brett Robinson, President, Canfor Pulp Products Inc.

Yeah. For 2012 we are largely done our capital spend. We have some modest items left into 2013. We would be looking to have a normal capital investment. We're typically around \$30 million and the only, I guess, difference may be if we have some energy projects that came that were attractive to us.

Benoit Laprade, Scotia Bank

So in total for next year for Canfor Corp consolidated?

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

So, yeah, I think in terms of just at this time, I think we'd anticipate something in order of 100 and 125 to 150 at the upper end.

Benoit Laprade, Scotia Bank

Great, thank you.

Operator

Thank you. Once again, as a reminder for members of the financial community, if you wish to ask a question please press star one.

Our next question is from Paul Quinn of RBC Capital Markets. Please go ahead.

Paul Quinn, RBC Capital Markets

Yeah, thanks very much. Good morning. I joined the call late, you might have talked about it, but just if you could go through the Canfor Pulp's 2013 maintenance schedule?

Don Kayne, President & Chief Executive Officer

Hi Paul, it's Don. You're just really referring to what our plans are in terms of additional maintenance shuts scheduled through 2013? Is that your question?

Paul Quinn, RBC Capital Markets

Yeah. Just trying to figure out which mills are going down in which quarter, because it seems to have an impact on your financials.

Don Kayne, President & Chief Executive Officer

For sure. Maybe, Brett, you can give Paul an update there.

Brett Robinson, President, Canfor Pulp Products Inc.

Yeah, absolutely. Hi, Paul. We would be taking our normal outage at the Northwood Mill in the spring, a small mini-shut if you will at (inaudible) in the spring, which is a regulatory three days, and then the bigger PG would be in the fall, probably in the October, September/October.

Paul Quinn, RBC Capital Markets

In fall. Okay. Thanks very much, Bret. And I guess, ah, I'm just sitting back and listening to all of these questions coming at you and I think you've had a lot of questions on Canfor Pulp dividend just because, you know, we're all, I think the vast majority of the analysts out there are expecting higher pulp prices next year and they're figuring out what the heck you're going to do with the cash. I just wanted to ask you on your outlook for the pulp markets, you know, we're seeing quite a few capacity adds on both the hardwood and softwood side; what do you expect to happen going forward here? Are you bullish on pricing?

Don Kayne, President & Chief Executive Officer

I'll maybe let—Sean, you go ahead on that one.

Sean Curran, Vice President, Sales & Marketing

Hey, Paul, it's Sean. How are you this morning?

Paul Quinn, RBC Capital Markets

Good.

Sean Curran, Vice President, Sales & Marketing

Good. We look at where we are sitting right now, we're coming into obviously seasonal demand uptick and we have the regular maintenance shut outages that are happening so you see modest increases that are going to be announced. I think one supplier is already out in November. Coming into next year we're following basically around the same level as most of the analysts where we expect pricing to be better coming into next year than it was in the third quarter for this year. But really when we look out for next year, probably on our north European price level somewhere in the 820 to 830 level, somewhere in that area. That's on a par dollar.

Paul Quinn, RBC Capital Markets

Okay.

Don Kayne, President & Chief Executive Officer

I think, Paul, maybe just, you know, just similar to how we've been treating the wood products business for a long time here and is that we're, if there's any question it will be on a conservative side whatever we do to. And that will be the case going forward here for a while until

we get some certainty that any price increases that we do see are sustainable. Right? And we're not at this point convinced that that's the case and so we're going to really be, you know, real cautious, real conservative going forward, which we think this is appropriate.

Paul Quinn, RBC Capital Markets

Sounds reasonable. Maybe a question just on the lumber side, you're obviously two thirds of the way through your \$300 million of CapEx project there, just wondering if you could give us a range of what you think lumber production is going to be for 2013 split between Canada and the U.S.?

Alistair Cook, Senior Vice President, Wood Projects Operations

Sure, Paul. It's Alistair Cook here. We expect our production to rise in 2013 up another 10, 15 percent. The south will be somewhat similar.

Paul Quinn, RBC Capital Markets

Great, that's all I had. Good luck, guys.

Operator

Thank you. Our next question is from Pierre Lacroix of Desjardins Capital Markets. Please go ahead.

Pierre Lacroix, Desjardins Capital

Yeah thanks. Just one follow-up on your shipments, lumber shipments from the West, from Canada, what would be the split, you know, now we know that 30 percent is going to China what would be the split to the U.S. and then in the U.S. south and west?

Don Kayne, President & Chief Executive Officer

So we'd probably about right now, Wayne, 45 percent into the U.S.?

Wayne Guthrie, Senior Vice President, Sales & Marketing

45 percent U.S., yes.

Don Kayne, President & Chief Executive Officer

And then what was the second part of the question?

Pierre Lacroix, Desjardins Capital

Yeah, 45 percent is going to the U.S. and then U.S. south versus the western side of the country?

Don Kayne, President & Chief Executive Officer

Wayne, you may have to answer that one.

Wayne Guthrie, Senior Vice President, Sales & Marketing

I don't have those numbers right in front of me. We have a broad distribution across the entire United States.

Pierre Lacroix, Desjardins Capital

Okay. Perfect. Okay. Last one, Don, are you starting to think about Polar Board or this mill is kind of a more longer term play if anything? Is there is any consideration to bring that back?

Don Kayne, President & Chief Executive Officer

Of course we're looking at all the time and we're encouraged, as I think Alan mentioned in his comments around OSB and OSB pricing, but we're certainly not at the level of all yet that we're confident that you'd want to bring up much production on yet. So that decision, we will continue to look at on a quarterly basis and when we're convinced that this recovery is well in place and our confidence ongoing, you know, then we'll look at that more from an operation standpoint. But at this point there's no consideration yet.

Pierre Lacroix, Desjardins Capital

And is there, you know, are there major issues in terms of securing the labour back into the mill given the location of the mill and the competition with the shale gas and that industry?

Don Kayne, President & Chief Executive Officer

Absolutely. I mean I think the industry faces that not only in BC but across Canada and the United States and globally really. That's a global issue and certainly it exists up there as well.

Pierre Lacroix, Desjardins Capital

Okay, thank you

Operator

Thank you. Our next question is from Joe Licursi of BMO Capital Markets. Please go ahead

Joe Licursi, BMO Capital Markets

Thank you, operator. My question concerns wood costs. Can you give us some guidance on what you're expecting in Q3 in Canada and your U.S. south operations?

Don Kayne, President & Chief Executive Officer

Okay, the U.S. South is easy. It's flat basically. And we're not expecting any change. There hasn't been any change and we don't see a lot of change going forward. In terms of Canada, Western Canada particularly, yeah, we are seeing some increase in overall log cost, mostly related to stumpage related to hauling distances and so forth. So that, for sure we've seen some of that. That would be probably the major reason for the increases.

Joe Licursi, BMO Capital Markets

You wouldn't give a percentage increase from quarter to quarter what they should be looking for?

Don Kayne, President & Chief Executive Officer

Yeah, percentage wise, I mean it's probably in the area of \$1 or \$1.50, something like that.

Joe Licursi, BMO Capital Markets

Okay. That's per thousand board feet, right?

Don Kayne, President & Chief Executive Officer

Per cubic metre.

Joe Licursi, BMO Capital Markets

Oh, per cubic metre. Thank you. The other question I had, like it doesn't concern Q4 but, you know, we hear a lot about (pellet) producers like in the south and we hear about like the production going from three years to ten million tonnes by 2014 according to RISI. In your U.S. south operations would this mean that your wood costs would take a hit like if this was to happen?

Don Kayne, President & Chief Executive Officer

You mean a hit being an increase?

Joe Licursi, BMO Capital Markets

Right.

Don Kayne, President & Chief Executive Officer

Yeah. I mean I think that, you know, going forward what I can comment on is our fibre position in South Carolina in particular but also North Carolina, more so in South Carolina, is in excellent shape. There's significant amount of fibre there. So if something dramatic were to happen there there'd probably be some impact potentially, but the way we see it, it won't be material, it will be minimal impact. And we're quite confident in our fibre position there. It's good not only today but it's sustainable in the future.

Joe Licursi - BMO Capital Markets

That's good. So it's firmly rooted. Okay, thank you very much.

Operator

Thank you. We have no further questions registered at this time. I would like to return the meeting back over to Mr. Kayne.

Don Kayne, President and Chief Executive Officer

All right thank you, operator, and thank you, everyone, and we'll look forward to speaking at the end of the year. Thanks very much.

Operator

Thank you. The conference has now ended. Please disconnect your lines at this time and thank you for your participation.
