

## CORPORATE PARTICIPANTS

### **Don Kayne**

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

### **Alan Nicholl**

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

### **Wayne Guthrie**

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

## CONFERENCE CALL PARTICIPANTS

### **Sean Steuart**

*TD Securities*

### **David Quezada**

*Raymond James*

### **Mark Kennedy**

*CIBC*

### **Paul Quinn**

*RBC Capital Markets*

## PRESENTATION

### **Operator**

Good morning, ladies and gentlemen, and welcome to the joint Canfor Corporation and Canfor Pulp Products Inc. Fourth Quarter Results 2013 Conference Call. A recording of the call and a transcript will be available on the Canfor 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.

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**Don Kayne**

Good morning, everyone, and thanks, operator. I appreciate everybody joining us today. I will provide some brief comments on Canfor and Canfor Pulp's results both for Q4 and for 2013 overall before turning things over to Alan Nicholl, our CFO, for a more detailed overview.

Canfor's net income for Q4 was \$28 million, consistent with the previous quarter. Net income for 2013 overall was \$229 million, up over \$200 million from 2012, for the most part reflecting stronger markets across our businesses. Lumber markets in North America experienced strong gains in Q4 with housing starts reaching five-year highs. Offshore shipments remained strong driven in the large part by higher shipments to China.

Canfor Pulp reported net income of \$14 million in Q4 compared to \$9 million for Q3. Net income for 2013 overall for Canfor Pulp was \$42 million, compared to \$13 million for 2012. NBSK prices improved modestly over Q4 in all regions and demand was solid. Pulp shipments were up by over 20 percent from the previous quarter.

As we previously announced, we completed a ten-year swap with West Fraser during the quarter that further strengthened our fibre position at Houston. However, we also regrettably announced the closure of our Quesnel mill, reflecting the long-term impact of the mountain pine beetle in that area. Through the quarter, we have been focusing on placing employees who will be impacted by the closure of our Quesnel sawmill, which will take place in March. In December we completed a negotiation of our new five-year collective agreement with the United Steel Workers providing stability for the medium-term.

We have continued to execute on our capital plans and announced new investments in our Houston, Fort St. John, Grande Prairie, and Elko divisions over the last several months. In November we also announced a 50/50 joint venture with Tangshan Caofeidian Wood Industry Co. to explore the creation of a secondary manufacturing facility at the deep water Caofeidian Port Tangshan City in Hebei Province

I will now turn things over to Alan Nicholl to provide more details on our fourth quarter financial performance.

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### **Alan Nicholl**

Thank you, Don, and good morning, everyone. My comments this morning will focus principally on our financial performance for the fourth quarter of 2013 by reference to the previous quarter. Full details of our

results are contained in the Canfor and Canfor Pulp news releases, both of which were issued yesterday.

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

For the fourth quarter of 2013 Canfor reported shareholder net income of \$28 million or \$0.20 a share, unchanged from the third quarter of 2013 and up from \$21 million or \$0.15 a share reported for the fourth quarter of 2012.

On slide three of our presentation we highlight various non-operating incomes net of tax and non-controlling interests, which affects the comparability of our results between the third and fourth quarters. In the fourth quarter these items had a net negative impact of approximately \$21 million or \$0.15 a share. The largest of these adjusting items being \$20 million pre-tax charge related to the announced closure of the Quesnel sawmill. After taking account of these items, the fourth quarter adjusted net income was \$49 million or \$0.35 a share. This represented a \$23 million or \$0.17 a share increase from the adjusted net income of \$26 million or \$0.18 a share for the third quarter of 2013.

With respect to our fourth quarter operating performance, you will see on slide four of our presentation that our operating income adjusted for the Quesnel closure provision and other one-time items was \$75 million, an increase of \$26 million from the prior quarter. The increase mainly reflects the strong gains in the lumber markets as well as higher pulp production and shipments.

Results for our lumber segment are highlighted on slide six of our presentation. Improved lumber results in the quarter reflected higher sales realizations, including upward trend in pricing, lower export tax, and a weaker Canadian dollar, offset in part by lower shipments and higher unit manufacturing costs that reflected higher log costs and lower production. The latter was impacted by major capital projects at our Houston, Elko, and Mackenzie sawmills, and lower operating hours due principally to statutory holidays and adverse weather conditions in December.

Canfor's Pulp and Paper segment principally comprises the results of Canfor Pulp Products Inc. and, as you can see on slide seven, Canfor Pulp reported net income of \$14 million or \$0.20 a share, compared to net income of \$9 million or \$0.13 a share for the third quarter and net income of \$5 million or \$0.08 a share for the fourth

quarter of 2012. Results in the fourth quarter of 2013 were negatively impacted by various non-operating incomes of \$3 million or \$0.04 a share and after taking account of these items Canfor Pulp's fourth quarter adjusted net income was \$17 million or \$0.24 a share and this represented a \$12 million or \$0.16 a share improvement from adjusted net income of \$6 million or \$0.08 a share for the third quarter of 2013.

Moving to slide eight, the increase in Canfor's results was, for the most part, attributable to higher production and shipment volumes in the pulp segment coupled with moderate increases in sales realizations that reflected increased and improved NBSK pulp prices on a weaker Canadian dollar. Pulp prices moved up in all regions during the quarter as a result of solid demand against a backdrop of lower producer inventory levels. Lower paper segment earnings in the fourth quarter were mostly due to reduced production and shipment levels, principally as a result of the scheduled maintenance outage out of Prince George kraft paper machine.

Capital spending in the fourth quarter of 2013 totaled \$68 million, of which \$44 million was in the lumber business and \$20 million in Canfor Pulp. Yesterday the Canfor Pulp Board announced a dividend payment of \$0.05 a share for the quarter. The Board has indicated that the Company may continue to pay a similar dividend through 2014 subject to market conditions.

During the quarter Canfor repurchased shares under its existing normal course issuer bid program and over the course of 2013 we've purchased approximately 2.8 million shares at a cost of \$60 million. While the targeted capital spending and a strong balance sheet remain our key priorities, we will continue to look for possible opportunities to repurchase additional shares for both companies over 2014.

At the end of the 2013 year Canfor, excluding Canfor Pulp, had cash of \$16 million with available liquidity of \$271 million. Canfor Pulp had cash of \$3 million with available liquidity of \$107 million.

Net debt to total capitalization excluding Canfor Pulp was around 6 percent, for Canfor Pulp it was 10, and on a consolidated basis it approximated 8 percent.

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

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**Don Kayne**

Thanks, Alan.

So, looking forward, we remain consciously optimistic regarding our lumber business. We are forecasting 1.1 million starts for the year and anticipate improving U.S. demand in all areas. In addition, offshore markets are projected to remain solid, supported by continued demand from China, Japan, and various other emerging markets. For Canfor Pulp, the current market conditions are better than anticipated several months ago; however, we again remain conscious in outlook for the balance of the year, principally due to the risk from new hardwood pulp coming on line later this year.

And with that, operator, I'll now open the lines up for questions.

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## QUESTION AND ANSWER SESSION

### Operator

Thank you, Mr. Kayne. We will now take questions from the telephone lines. We'll first take questions from the financial analysts. If you have a question, please press star one on your telephone keypad. If you are using a speakerphone, please lift 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 Sean Steuart, TD Securities. Your line is now open. Please go ahead.

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### Sean Steuart, TD Securities

Thanks. Good morning, everyone. A few questions. Don, I guess I'll start with one of your last comments there where you, I guess, defined your outlook for offshore lumber market as solid for 2014. Does that mean you're expecting volumes to sort of tread water with what we saw in 2013 or does that reflect an implied growth rate and volumes for that market? China I guess in particular.

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### Don Kayne

Okay, Sean, yeah, on that one basically I think for the most part we would expect that next year our overseas markets will be very similar of what we have seen in 2013. Particularly Japan and China would be the many two markets, as you know.

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### Sean Steuart, TD Securities

Okay. And, Don, do you have any view on what sort of lumber price level in North America do you start to get worried about European imports picking up? How does that factor into outlook for markets over the next year or two?

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### Don Kayne

For sure. I mean I think, you know, we definitely keep up to date on that and are aware of that possibility going forward. We do believe though that the prices that they may be interested in a bigger and bigger way to enter into the North American markets probably somewhere in the neighborhood of between \$400 and \$500 a thousand. That would be kind of the range. And even at that we probably wouldn't, ah, don't expect to see the similar types of volumes that we saw last go around.

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### Sean Steuart, TD Securities

Okay, that's helpful. And I'll just ask one more for now and then get back in the queue. With respect to the Canfor Pulp dividend policy, and I guess, you know, you guys indicating that the Board might keep the dividend at the current level through this year, you know, I understand the concerns you have about the hardwood capacity ramp up and how that might filter into the softwood markets but, Don, or maybe Alan, maybe you can speak to is there a target liquidity position at Canfor Pulp you guys want to get to before you would consider raising the dividend? How do you think, I guess, about the dividend in the context of your liquidity based versus payout ratios? Any sort of context on your thinking there would be helpful,

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### Don Kayne

Yeah, I think on that, um, overall, I mean in terms of the dividend decisions, we look at that quarterly with, you know, have a discussion ourselves and of course we discuss it with the Board in the context of some of the other choices that we have in addition to that and for now, you know, I couldn't give you any more guidance other than where we are right now is where we see going forward. Things could change of course but for the most part we're heavily focused, as you know, Sean, I think, is really making sure we're invested in our business as much as we possibly can, but also at the same time trying to balance off the outside investors that we have.

So we would, it's just something we would look at every quarter and make those determinations at that time.

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**Sean Steuart, TD Securities**

Okay, got it. I'll get back in the queue. Thanks, guys.

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**Operator**

Thank you. The next question is from David Quezada with Raymond James. Please go ahead.

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**David Quezada, Raymond James**

Hi. Thanks. Good morning, guys. My first question is on the southern yellow pine pricing. I know that in the release it said that your realizations were flat quarter over quarter whereas the benchmark 2x4 was up. I'm just wondering, A, if you could tell us about what your breakdown is between 2x4 and wider widths and, B, do you expect that differential to normalize and for the wider widths to come in line with the 2x4 going forward?

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**Don Kayne**

So maybe, Wayne, if you're on the line, I know you're remote on this one, if you are and you hear me, maybe you could give some specifics around that.

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**Wayne Guthrie**

Sure. Sure, yeah. For sure we've seen a deterioration in the premiums, the historical premiums on the wide widths down on the south. We're trying to address that through manufacturing and trying to produce more four-inch and less of the wider widths. Going forward, we're going to try to—I don't see kind of the old 2x10 premium coming back but what we are starting to see in the south is more export business coming in for some of the discounted widths. That's going to bring those up more in line with the 2x4 price. So I don't know if we're going to go back to where we were but we do see some positive trends in terms of some of the mix down there. We don't make public what our 4-inch percentage is but no doubt we're trying to drive it a bit higher, if we can do so and keep our productivity where it needs to be, because that's where the premium is and we see that continuing in 2014.

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**David Quezada, Raymond James**

That's helpful, thanks. My only other question was, um, you mentioned that poor weather affected shipments little bit in the quarter; do you expect that to be a bigger issue in the first quarter or still not a major concern?

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**Don Kayne**

Well hopefully as long as the weather improves from here on in it will be similar to what we've just had, but I mean, you know, of course it's been a bit of a tough start. It's been very inconsistent. We're doing our best to work around that and we're making good progress and at this point we're confident that we can certainly make up some of that ground over the quarter and over the year.

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**David Quezada, Raymond James**

Okay, great. Thanks. That's all I had.

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**Operator**

Thank you. The next question is from Mark Kennedy with CIBC. Your line is now open. Please go ahead.

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**Mark Kennedy, CIBC**

Good morning. I guess my question is focused more on Canfor Pulp. Just wondering can you just give us an idea, like in your fourth quarter with that EBITDA of about \$39 million in Canfor Pulp, how much of that would you classify as sort of being green energy related EBITDA, and then how much delta we can expect on the green energy side, because I know, ah, I think the Northwood turbine is still ramping up and Intercon ties in in April, so, you know, how much you're expecting growth in that this year? Is there any guidance you can give us on that front?

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**Don Kayne**

Alan, maybe you could speak with Mark on that.

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**Alan Nicholl**

Yes, Mark, (inaudible) your question, just a little bit of context to the energy revenue, I mean I think what we've indicated in the past is that the two major TG upgrades that we're undertaking and Northwood one currently will

contribute around incremental EBITDA close to \$10 million once everything is up and running. I think something similar to Intercon. And so today we have the PG. So in total by the time we get to the end of 2015 we are expecting incremental EBITDA of in the region of close to \$30 million EBITDA by the end of 2015.

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**Mark Kennedy, CIBC**

Okay, that's great. Thank you. That's all I have. Thanks.

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**Don Kayne**

Thanks, Mark.

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**Operator**

Thank you. The next question is from Paul Quinn with RBC Capital Markets. Please go ahead.

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**Paul Quinn, RBC Capital Markets**

Yes, thanks very much. Good morning. Just I guess following up on the dividend question on Canfor Pulp, I understand the concerns on the hardwood capacity just looking at the cash flow that you are going to generate in that business and then I'm just trying to put into context and it seems like the majority of your large CapEx at those mills are behind you, and then the question is what do you do with the cash, so I guess the question I've got is how do you look at that decision to either increase dividends or increase share buybacks?

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**Don Kayne**

Alan, do you want to speak to that?

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**Alan Nicholl**

Good morning, Paul. So I think for us what, as Don mentioned, we typically go through this consideration with Board regularly and the Board review and obviously (inaudible) on the dividend policy. I think today we still, as Don mentioned, have a fairly cautious outlook on markets.

It's really hard to make a call on just how far or not prices may come off here as this new capacity comes online and for sure now we've got a temporary reprieve but I

think we are still of the view that there is risk of, ah, particularly in the back half of this year and into 2015, and so for now we are taking a fairly conservative and cautious approach and are very keen to preserve the balance sheet strength and at the same time not deprive our operations of all the capital they need to retain their top quartile status and, in fact, move into top decile where possible.

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**Don Kayne**

Maybe just to add to that too, Paul, I mean, because Alan and I, we're not in the same office here, but basically, I mean, as we are on Canfor and Canfor Pulp both very, very focused on making sure that we got a strong sustainable balance sheet absolutely first and foremost and we've all been in the industry, not just Canfor, in different situations in the past and we are determined not to be there again. So if things turn out to be better than what we think as we go forward, then we will make those decisions as they arise, but right now, from the knowledge that we have across, you know, the knowledge that we certainly are basing everything on, it's really to make sure that we—we feel we need to continue to be relatively cautious and we will be going forward. So that's, you know, we've just got a little bit more caution maybe than we would have in past years.

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**Paul Quinn, RBC Capital Markets**

Yeah, no, I applaud the cautious nature, but just looking at your balance sheet right now, do you expect that balance sheet to get stronger going forward? I mean it looks like you've got cash flow, you know, that should be pretty strong in the foreseeable future and it doesn't look like you've got significant areas to spend it on.

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**Don Kayne**

We hope so. We hope—that's the plan, certainly, to get stronger and, again, I mean I assure you that as we go forward we will be looking at that, but we'd just like to see a little more certainty in the marketplace and just what the dynamics of this additional supply will cause in the market and so forth, and as that materializes we'll be in probably a better position to make some of those longer-term decisions.

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**Paul Quinn, RBC Capital Markets**

Okay, fair enough. In terms of using some of that cash, maybe the other way is growth. Do you see growth on both the pulp and the lumber side? And then specifically on the lumber side, maybe you could share some of the valuations or some of the expectations the marketplace has out there for additional mills in your portfolio.

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**Don Kayne**

Yeah, for sure, Paul. I mean clearly we are looking at growth for sure. I think we've talked a little bit about in the past and certainly we like south business, as we've spoken about before, and we also like Western Canada and particularly the interior, so with the key, probably one of the key criteria being certainly to improve our fibre position always as the first and foremost. As you mentioned accurately, certainly the sellers in the marketplace or potential sellers have increasingly higher expectations, so it's going to be more and more, you know, it's going to be more and more challenging going forward to do some of those deals and grow at maybe the pace some of us have grown in the past, but clearly, you know, it's going to take a bit more innovation and a little bit different types of models, but I still think it can be done. So we're looking at that that. The area, as we talked about, and I think Brett has in the past, certainly Alan has as well, is there's energy opportunities as well. So those would be probably the three areas that we will be focused on over the next several years.

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**Paul Quinn, RBC Capital Markets**

Okay, great. That's all I had. Thanks, guys.

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**Don Kayne**

Okay. Thanks, Paul.

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**Operator**

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

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**Sean Steuart, TD Securities**

Thanks. Just a couple follow-ups, guys. CapEx for 2014, I guess you guys have set the budget more or less by now, is it pretty consistent with the guidance you already given on the last call, which I think was around \$220 million for the whole company?

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**Alan Nicholl**

Hi, Sean. Yes it is.

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**Don Kayne**

That would be basically correct and split between about \$175 million in the solid wood side and the balance on the pulp side.

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**Sean Steuart, TD Securities**

Okay. And wondering, Don, if you can speak to, I guess, expected stumpage inflation into the first quarter here I guess just given the timing lag relative to lumber prices and prices started to take off in the third quarter of last year, um, expected magnitude of stumpage cost pressure in BC?

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**Don Kayne**

In BC we're probably, you know, kind of a first indication is probably in the neighborhood of 7 to 10 percent overall, and down in the south, you know, hopefully keep it relatively close to where we're at.

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**Sean Steuart, TD Securities**

Okay, that's all I had. Thanks, guys.

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**Don Kayne**

All right. Thanks, Sean.

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**Operator**

Thank you. Once again, please press star one if you have any further questions.

The next question is a follow-up question from Paul Quinn with RBC Capital Markets. Please go ahead.

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**Paul Quinn, RBC Capital Markets**

Yeah, thanks, just a follow-up on share buybacks. Could you just remind me of the authorizations of both companies?

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**Don Kayne**

Alan, maybe you can give Paul that info?

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**Paul Quinn, RBC Capital Markets**

Maybe he can't.

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**Don Kayne**

Yes, basically, I'll just—basically it's 5 percent per quarter, or sorry, per year, for both companies.

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**Paul Quinn, RBC Capital Markets**

Okay. Thanks very much.

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**Don Kayne**

Can you hear me? Yeah, I don't know what happened down in Vancouver, but anyway...

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**Operator**

Thank you. Once again, please press star one if you have any further questions. The next question is from Blair Leb with Waratah. No, a correction... Once again, please press star one if you have any further questions.

There are no further questions registered at this time. I'd now like to turn the meeting back over to Mr. Kayne.

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**Don Kayne**

Thanks, operator, and thanks, everyone, for participating in this morning's call and we, again, look forward to talking with you at the end of the first quarter. Have a great day. Bye-bye.

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**Operator**

Thank you, Mr. Kayne. The conference call has now ended. Please disconnect your lines at this time. Thank you for your participation.

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