

## CORPORATE PARTICIPANTS

**Don Kayne**

*President & Chief Executive Officer*

**Alan Nicholl**

*Chief Financial Officer*

## CONFERENCE CALL PARTICIPANTS

**Paul Quinn**

*RBC Capital Markets*

**Mark Kennedy**

*CIBC World Markets*

**Pierre Lacroix**

*Desjardins Securities*

**Daryl Swetlishoff**

*Raymond James*

**Paul Quinn**

*RBC Capital Markets*

## PRESENTATION

### Operator

Good morning, ladies and gentlemen. Welcome to the joint Canfor Corporation and Canfor Pulp Products Inc. Fourth Quarter Results 2012 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, President & Chief Executive Officer**

Thank you, David. Good morning, everyone. Thanks for joining the Canfor and Canfor Pulp Products Inc. Fourth Quarter Results Conference Call. I will speak briefly to the results of both companies before I turn things over to Alan Nicholl, who is our Chief Financial Officer for both Canfor Corporation and for Canfor Pulp. Alan will provide a more detailed overview of our performance in Q4 and for 2012 overall, after which we will take questions.

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 for Canfor; and Sean Curran, our Vice President of Sales and Marketing for Canfor Pulp.

Yesterday Canfor Corporation reported Q4 shareholder net income of \$21.6 million or \$0.15 per share and an operating income of \$50 million. Canfor Pulp Products Inc. reported Q4 net income of \$4.7 million or \$0.07 per share and an operating income of \$11 million. Alan will speak to the financial results in greater detail in a couple of minutes.

In 2012 we saw the first signs of improvement in lumber markets since the U.S. housing downturn in 2009. Our total lumber production was up 22 percent over 2011 reflecting acquisitions, internal expansion, and the restart of previously idled facilities. Sales in the Japan were the highest since 2006 and we surpassed one billion board feet of sales into China for the first time since we began work to develop that market over a decade ago.

Global softwood pulp markets showed a slight improvement through the fourth quarter of 2012 and NBSK pulp list prices also improved modestly over Q4, with increases in the \$10 to \$30 a tonne range across all regions. Overall, however, markets for pulp remained challenging and that is reflected in Canfor Pulp's 2012 results as compared to 2011.

Looking ahead to 2013, we are encouraged by the consistent signs of improvement we are seeing in the U.S. market. We remain cautiously optimistic that the U.S. economy will continue to improve, although we believe it will be a very gradual process. We continue to make progress on our capital plans. We were able to reopen our Radium division in the fourth quarter of 2012, adding 260 million board feet of production capacity.

We have recently announced further investments in our saw milling assets with \$80 million of capital expenditures underway to improve efficiency at our Mackenzie sawmill and our Elko sawmill in British Columbia. We also recently announced the addition of a second production

line at our Conway mill in South Carolina, which produces Southern Yellow Pine dimension lumber.

Finally, in November we announced that we have entered into a letter of intent with Louisiana-Pacific to sell Canfor's 50 percent share of our joint venture in Peace Valley oriented strand board facility in Fort St. John. This decision is part of our continued strategy of re-profiling our assets to focus on lumber and pulp and paper production.

I will now turn the call over to Alan Nicholl, who will provide more details on our financial results.

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### **Alan Nicholl, Chief Financial Officer**

Thank you, Don, and good morning everyone. My comments will focus principally on our financial performance for the fourth quarter of 2012 by reference to the previous quarter. I will discuss the results of Canfor first and Canfor Pulp second.

In my comments, I'll be referring to our fourth 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 are contained in the Canfor and Canfor Pulp news releases, both issued yesterday.

For the fourth quarter of 2012 Canfor reported equity shareholder net income of \$21.6 million or \$0.15 per share. This was in line with shareholder net income of \$22 million or \$0.16 a share reported for the third quarter but significantly higher than the shareholder net loss of \$44 million or \$0.31 a share reported for the last 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 third and fourth quarters. In the fourth quarter these principally reflected mark-to-market losses on financial derivatives and an accounting gain resulting from post-retirement and pension plan adjustments. The net impact of these non-operating items in the fourth quarter was approximately \$1 million or \$0.01 a share. After taking account of these items the fourth quarter adjusted net income was \$23 million or \$0.16 a share, and this represented an \$8 million or \$0.05 a share increase from adjusted net income of \$15 million or \$0.11 a share for the third quarter of 2012.

With respect to our fourth quarter operating performance, you will see on slide four of our presentation that reported operating income was \$50 million, an increase of \$28

million from the previous quarter. The increase principally reflected improved pulp segment results due to moderately higher market prices and improved unit manufacturing costs. Operating results for the lumber business also showed improvement reflecting higher market pricing, particularly at the end of the quarter. I will speak more on our operating performance in a few minutes when I discuss the individual segment performances.

Slide five of our presentation shows Western SPF lumber benchmark prices for 2x4 #2&Btr and U.S. housing starts over the last four years. In the fourth quarter U.S. lumber demand continued to improve, reflecting historically low mortgage rates and a gradual strengthening in housing markets. Total U.S. housing starts averaged just under 900,000 units in Q4, a 16 percent increase from the previous quarter. The December seasonally-adjusted U.S. housing starts number of 954,000 was the highest in nearly five years. Western SPF 2x4 #2&Btr prices improved through Q4, particularly in the latter part of the quarter, with the price in December averaging \$370 per 1,000 board feet.

Turning to slide six of the presentation, the lumber segment reported operating income of \$42 million for the fourth quarter of 2012, an increase of \$6 million from the previous quarter. The improvement in fourth quarter results reflected higher sales realizations that were partly offset by increases in unit production and log costs that reflected a combination of higher market stumpage, seasonal factors, and the restart of our Radium operation, as well as an accounting gain related to amendments to our post-retirement benefit plans. While sales realizations did move up, they lagged the increase seen in North American 2x4 #2&Btr list prices. This was largely due to more moderate increases in Asia, where contracts are negotiated monthly or quarterly and also in North America, more and modest increases were seen in lower grades while MSR and stud prices actually saw modest declines. In addition, not all of the price escalations seen late in the quarter was reflected in Q4's shipments.

Slide seven of our presentation highlights the results of Canfor's pulp and paper segment, which reflects the results of Canfor Pulp as well as the Company's Taylor BCTMP pulp mill. This segment reported fourth quarter operating income of \$11 million, an \$18 million improvement from the previous quarter.

Turning now to slide eight and focusing on the results of Canfor Pulp, you will note that for the fourth quarter of 2012 Canfor Pulp reported net income of \$5 million or \$0.07 a share. This compared favorably to a net loss of \$5 million or \$0.06 a share for the previous quarter and

was well below net income of \$16 million or \$0.22 per share reported for the same quarter of 2011.

Operating income of \$11 million for the fourth quarter represented an improvement of \$19 million from the previous quarter. The increase reflected higher pulp production and shipments and, to a lesser extent, a modest improvement in sales price realizations and lower fibre costs. Also, the aforementioned changes made to post-retirement benefit plans added about \$4 million to the operating income in the fourth quarter and, by way of reference, the prior quarter included a \$3 million one-time cost associated with the new five-year collective labour agreement.

Turning now to Canfor Pulp's pulp segment on slide nine, the fourth quarter operating income was \$7 million, an increase of \$15 million from the previous quarter. North American U.S. dollar NBSK list pulp prices were up by \$6 from the previous quarter on a Canadian dollar basis; however, more importantly, pulp production rose by about 40,000 tonnes as the mills ran nearer to capacity after the scheduled and unscheduled outages seen in the third quarter. Unit manufacturing costs reflected the improved productivity while fibre costs saw a modest decrease quarter-over-quarter. The fourth quarter's pulp segment results included the \$3 million accounting gain related to the post-retirement plan adjustments, while the third quarter results included the aforementioned \$3 million expense in connection with the new collective bargaining agreement.

Turning now to Canfor Pulp's paper segment, on slide 10 you will see that we reported fourth quarter operating earnings of \$7 million. That was up \$2 million from the previous quarter. Price realizations were down slightly during the quarter, reflecting lower shipments of prime bleached paper, but more than offsetting this reduction were higher total shipments and lower costs, particularly for slush pulp.

During the fourth quarter Canfor Pulp extended and expanded its operating line of credit increasing its \$40 million facility to a \$110 million with a new maturity date of November 30, 2016. It's expected that this facility will be used to refinance a large part of the term loan coming due on November 30, 2013.

Yesterday, the Canfor Pulp Board announced a dividend payment of \$0.05 per share for the quarter. The Board also announced that it projects that it will pay quarterly dividends of \$0.05 per share for the remainder of 2013, reflecting the Company's latest outlook for 2013 and its corporate structure.

Capital spending for the fourth quarter totaled \$48 million, of which \$35 million was in the lumber business and \$13 million in Canfor Pulp. As Don mentioned, we have announced two further capital investments at our Elko and Mackenzie sawmills at a cost of approximately \$40 million each.

On the pulp side, the Company reached agreement during the quarter with BC Hydro on a new clean energy agreement to build turbine capacity at Northwood at a cost of approximately \$25 million. This project is expected to be operational by April 2014.

At the end of 2012 Canfor excluding Canfor Pulp had net debt of approximately \$215 million with available liquidity of \$305 million. Canfor Pulp had net debt of \$111 million with available liquidity of \$108 million. Net debt to total capitalization excluding Canfor Pulp was around 19 percent. For Canfor Pulp it was around 22 percent and including Canfor Pulp and consolidated it was around 20 percent.

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

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**Don Kayne, President & Chief Executive Officer**

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

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## QUESTION AND ANSWER SESSION

### Operator

Thank you, Mr. Kayne. Questions will now be taken from the financial community. If you wish to ask a question at this time and you are using a speakerphone, please ensure that you lift your handset before you make any sections. If you wish to ask a question at this time please press star one on your telephone keypad. You may also cancel your question at any time by pressing the pounds sign. Please press star one at this time if you have any questions. There will be a brief pause while participants register. Thank you for your patience.

The first question is from Paul Quinn with RBC Capital Markets. Please go ahead.

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**Paul Quinn, RBC Capital Markets**

Thanks very much and good morning. Just a question on lumber segment I guess, we are seeing, well at least I am seeing in my model that costs, cash costs sort of moving

up slowly quarter over quarter here for the last, it seems like six quarters. I know you guys have invested quite a bit of money at your facilities. Just wondering if that cost increase is all on the log side and partly on the one-timers like the Radium start-up and that you are actually seeing sort of slowly dropping conversion costs?

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**Alan Nicholl, Chief Financial Officer**

Alan here. Good morning, Paul.

Yeah, I think your synopsis is pretty accurate. We are seeing continued positive trending at our mills and very encouraged by Radium by the way in terms of its progress. And the creep that you are seeing represents, for the most part, the normal market stumpage increase that attracts improved realizations.

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**Paul Quinn, RBC Capital Markets**

Okay. And then just on the pricing lag that we saw in lumber where benchmark SPF prices were up significantly higher than your quarter-over-quarter realization increase, you described that it's due to the Asian lag. Is that picked up in Q1 or what can we expect going forward?

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**Don Kayne, President & Chief Executive Officer**

Paul, it is Don. I guess, absolutely. And we continued our focus, as we have said before, in the Asian markets. We believe that diversification is important. So absolutely that should be picked up in Q1, because typically, as we have mentioned before, typically the overseas markets are 30 to 45 days, ah, have a 30 to 45 day lag.

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**Paul Quinn, RBC Capital Markets**

Okay. And just lastly on the Asian market, specifically China, are you seeing growth in that market? I mean we saw 2012 being very similar to 2011; what are you expecting for 2013?

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**Don Kayne, President & Chief Executive Officer**

Just ongoing steady growth. I mean we had good growth in 2012 and we don't expect that to change again in 2013 from where we are at today. We do expect, like I said, ongoing growth.

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**Paul Quinn, RBC Capital Markets**

So overall market was pretty flat to shipments to China but Canfor was up what percent?

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**Don Kayne, President & Chief Executive Officer**

Around 10 percent.

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**Paul Quinn, RBC Capital Markets**

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

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**Don Kayne, President & Chief Executive Officer**

Okay, thanks Paul.

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**Operator**

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

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**Mark Kennedy, CIBC World Markets**

Good morning. First of all, Alan, just wondering if you can just give us your expectations on CapEx for 2013 now for both corp and pulp?

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**Alan Nicholl, Chief Financial Officer**

Yeah, good morning, Mark. Yeah, I think for pulp business today we are contemplating around \$50 million of capital, and a good chunk of that will be maintenance and also the energy project that we alluded to earlier. And then in the lumber space, yeah, today we are contemplating kind of \$100 million to \$125 million, \$130 million. Ultimately, what we pay out there will reflect the health of the market conditions and the projects that we identify.

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**Mark Kennedy, CIBC World Markets**

Okay. So all-in you will still be under \$200 million you expect for 2013?

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**Alan Nicholl, Chief Financial Officer**

Yeah. Yeah, that's our feel today, Mark.

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**Mark Kennedy, CIBC World Markets**

Okay. And, Don, just wondering, ah, or, you know, as you are talking to your customers here heading into the spring season, again just looking to gauge their temperature. Like is their biggest focus just on getting their reacquired lumber volumes and what they're talking to you about on that front?

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**Don Kayne, President & Chief Executive Officer**

Are you talking U.S. market, Mark?

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**Mark Kennedy, CIBC World Markets**

Yeah, focused more on the U.S. right now.

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**Don Kayne, President & Chief Executive Officer**

I think that, like everybody, we are cautious about the recovery in the U.S., but certainly the customer base in the U.S. is more interested again in trying to look at securing supply for the future. So there is definitely more interest than there has been for some time. And they're also probably more aware of the markets being more global now as well and that we do have more choices than we have had before. But overall clearly our key customer base in the United States we'll continue to support and focus on going forward.

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**Mark Kennedy, CIBC World Markets**

Okay. And then just a question on sort of log supply going into spring break-up, both for yourselves and just your impression in the BC interior in general, like are there any concerns on that front or does the industry think they're going to have adequate log to log supply going into spring break-up?

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**Don Kayne, President & Chief Executive Officer**

Yeah, I think from our standpoint, Mark, we are not anticipating any issues perhaps like we've had over the last year or year before, but this year we are in good shape and don't expect any issues at this point.

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**Mark Kennedy, CIBC World Markets**

Okay, great. Thank you.

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**Operator**

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

The next question is from Pierre Lacroix with Desjardins Securities. Please go ahead.

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**Pierre Lacroix, Desjardins Securities**

Thank you. Just wondered if you could comment a just bit on the recent greenfield project that we saw from Klausner(sp.) in the U.S. South. Is it something that, is it a trend that is beginning there in terms of building new sawmills in the U.S. South? And also maybe you could comment on your wholesale business that you had. I think was—was that with Klausner as well? So what is the outlook for the wholesale business coming from Europe?

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**Don Kayne, President & Chief Executive Officer**

I will start with the second one first. In terms of any wholesale volume that we are doing with Klausner, it's is basically zero, and it has been for several years. The wholesale volume that you probably saw is a small amount and that would only be probably just supplemental volume that we need to complement some of the production from our own mills where we need it where we're maybe short here and there, but it's not a big direction at all.

In terms of Klausner in the south overall, you know, none of those mills, from what we understand, are in the process of being built yet. They are still in the early stages. Whether that's a trend in the future, a bunch of new mills, at this point we don't see that ourselves particularly. We believe there is still opportunity potentially and it will probably come from more of spending at existing facilities and upgrading as opposed to any new greenfield projects. That Klausner that you referred to, that Klausner project or projects, we think is a ways away yet before that's all confirmed.

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**Pierre Lacroix, Desjardins Securities**

And maybe can you comment a bit on the supply side in the U.S. south, the contracting loggers? How is it going there in term of capturing, let's say, further capacity and supplies? Is there significant issues there or do you see that improving?

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**Don Kayne, President & Chief Executive Officer**

There hasn't been issues and we don't expect there to be issues, over the next 12 months anyway, and we're able to get the logs that we need at the facilities that we're operating at competitive prices and we've got good solid relationships for many years with the contractor so we don't anticipate any issues there either.

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**Pierre Lacroix, Desjardins Securities**

Coming back on the offshore market but on the import side, you commented on your wholesale business you don't see anything coming but we recall in 2004/2005 there was a lot of volume that was coming in from Europe, Germany, Sweden, so on and so forth. Is this something that you could think that we could see again in the near future given the price level in North America?

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**Don Kayne, President & Chief Executive Officer**

Yeah, I mean of course it's always the concern that we keep our eyes on that, for sure, Pierre, but unlike back in 2004/2005 there is a bunch of things that have changed in Europe too in terms of log costs for sure, and so we expect as the prices continue to increase that there will be some European wood no doubt coming into North America but we don't see the kind of volumes that we have seen in the past, partly because of some of the sawmills in Europe that are just shut as well as an increasing log cost that requires even a much higher level than even where we are at today to make it worthwhile on a sustainable basis.

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**Pierre Lacroix, Desjardins Securities**

Thank you very much.  
**Operator**

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

Once again, there will be a brief pause while participants register.

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

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**Daryl Swetlishoff, Raymond James**

Good morning guys. Just to follow-up on Pierre, in the BC interior specifically, Don, can you comment just on Canfor's near-term ability to increase production? And then maybe a longer term view as well. What could you do to increase production in the BC interior longer term?

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**Don Kayne, President & Chief Executive Officer**

Sure, Daryl. I mean I think right now, as you know, with the capital that we are spending across several of the facilities, you know, that's partly been about getting a more volume and value out of our existing facilities. So there'll be some of that. We're probably running right now operating rates around 90 percent, 92 percent, something like that overall, but once we get the Elko and the Mackenzie mills up and running from the capital that we are spending there, plus Radium running at full capacity, there will maybe be a little bit here and there that we can do but for the most part once that's all in place we will be running darn close to full capacity. The only other option there might be if at some point if people started adding third shifts and whatnot, but we don't see that at all from our standpoint. So basically I guess the answer is minimal.

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**Daryl Swetlishoff, Raymond James**

Minimal. Okay. And just, ah, the third shift comment was actually next question. You know, in the past when we saw hot markets third shifts were common. Why, ah, because I hear it a lot that third shifts are not really contemplated at this point in the cycle; can you explain the difference?

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**Don Kayne, President & Chief Executive Officer**

Yeah, absolutely. I guess two big things. Number one, just availability of logs. And then even if those logs, you are able to find them, the quality of those logs aren't what they once were, as you are well aware with the situation up in the interior. Number one.

Number two, which is as big a problem and you've heard lots about that too I'm sure, is just around people, just availability particularly of the skilled trades, but just generally just people. So you've got, first of all, if you can

find the logs, then you've got to try and find the people. So those two issues are two significant differences from, you know, if you went back five, six, seven years to try to compare.

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**Daryl Swetlishoff, Raymond James**

Okay. Thanks for that, Don. That's all I had.

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**Don Kayne, President & Chief Executive Officer**

Okay, thanks Daryl.

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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**

Yeah, thanks. Just a follow-up on, ah, on just Canfor Pulp's management and the change there, I suspect that was to lower costs overall and to capture some of the synergies that weren't caught between Canfor and Canfor Pulp. Maybe you could outline that sort of potential synergy bucket and how you've made progress since that change has been made.

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**Alan Nicholl, Chief Financial Officer**

So, Paul, for sure we have captured a number of synergies, and we are lining up quite a lot more here in 2013. Synergies fall into a number of buckets, including kind of corporate admin, finance, but also very importantly in the realm of transportation and fibre and other procurement. So we are seeing very positive results there across all areas actually. And we are targeting around \$10 million of realized synergies in 2013, just to give you some context there.

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**Paul Quinn, RBC Capital Markets**

Great, that's helpful. And then also another modeling question. You sold, well expected to sell Peace Valley (after) that \$75 million but at carrying interest; how do we model that going forward?

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**Alan Nicholl, Chief Financial Officer**

Well, I think today we see that transaction closing at the end of the first quarter or early second quarter. If you are kind of getting at how to factor in the earn-out, we just can't go into that detail. And I appreciate your situation there, Paul, but certainly in terms of the close of the transaction you can build that into your model for the end of this quarter, early next quarter.

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**Paul Quinn, RBC Capital Markets**

How will that earn-out show up then? We'll see that in subsequent quarters and we can talk about it?

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**Alan Nicholl, Chief Financial Officer**

Yeah, I think we are working through that as there are certain accounting requirements that we have to process there that will factor into that but I think, yes, as a general comment here you are spot on. You will see kind of, ah, probably you'll see fair value adjustments here as we go forward after the completion of the transaction.

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**Paul Quinn, RBC Capital Markets**

Great, thanks guys.

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**Operator**

Thank you. The next question is a follow-up question from Pierre Lacroix with Desjardins Securities. Please go ahead.

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**Pierre Lacroix, Desjardins Securities**

Yes, thanks. Just wanted to hear you guys commenting a bit about your appetite for M&A, especially when we saw the International Paper sawmills being bought by Georgia-Pacific in December. Is that a (read through) that the competition out there for assets given the buzz right now going on in U.S. housing lumber, so on and so forth, is the competition is really aggressive in sizing those assets and how do you fit there?

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**Don Kayne, President & Chief Executive Officer**

Pierre, it's Don. I think just overall—first of all, we've got a lot on our plate here around the capital that we're planning right now both on the pulp side as well as the

lumber side. We spent some money down on our mills in the south and we have got, as you've heard, three or four projects going on in BC. So that's clearly a focus there. And to just to make sure that we are up and running on time and on budget like we are planning. Over and above that, yeah, like everybody else probably we are looking at opportunities always, particularly ones that makes sense from a fibre standpoint most importantly, and so we will continue to look at that and as opportunities arise that makes sense we will take a hard look at them. But right now, that's probably all they can really comment on right now.

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**Pierre Lacroix, Desjardins Securities**

Okay, thank you.

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**Operator**

Thank you. There are no further questions registered on the telephone lines at this time. I would now like to turn the meeting back over to Mr. Kayne.

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**Don Kayne, President & Chief Executive Officer**

All right. Well thanks very much, operator, and thank you all for participating in the call and look forward to speaking at the end of the first quarter. Thanks very much.

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**Operator**

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

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