

QUARTER 1 2013 – CANFOR CORPORATION CONFERENCE CALL

CORPORATE PARTICIPANTS

Don Kayne

President & Chief Executive Officer

Alan Nicholl

Chief Financial Officer

Brett Robinson

President, Canfor Pulp

Sean Curran

Vice-President, Sales & Marketing, Canfor Pulp

CONFERENCE CALL PARTICIPANTS

Daryl Swetlishoff

Raymond James

Sean Stuart

TD Securities

Mark Kennedy

CIBC World Markets

Paul Quinn

RBC Capital Markets

PRESENTATION

Operator

Good morning, ladies and gentlemen. Welcome to the joint Canfor Corporation and Canfor Pulp Products Inc. First 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.

Don Kayne, President & Chief Executive Officer

Thank you, operator, and good morning. Thanks for joining the Canfor and Canfor Pulp First 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 also Canfor Pulp Products Inc. Alan will provide a more detailed overview of our performance in Q1, after which we will take questions.

With me today to address your questions are Brett Robinson, President of Canfor Pulp; Alistair Cook, our Senior Vice President of Wood Products Operations; Wayne Guthrie, our Senior VP of Sales and Marketing; and Sean Curran, our VP of Sales and Marketing for Canfor Pulp.

Canfor Corporation posted quarter one operating income of \$100 million, which was an improvement of \$118 million over the posted results for the Company in Q1 of 2012. Of this \$100 million, \$19 million is directly attributable to Canfor Pulp and the balance to our solid wood business.

U.S. housing starts topped 1 million in March for the first time since June of 2008. Looking ahead to 2013 we are very encouraged by the consistent signs of improvement we are seeing out of the U.S. market. We are cautiously optimistic that the U.S. economy will continue to improve and that improvement will continue to be reflected in our results.

We've seen modest improvements in pulp markets and Canfor Pulp continues to make good progress on executing their business plans, including expansion of their energy sales. In December Canfor Pulp and BC Hydro signed an energy purchase agreement which will see Canfor Pulp invest \$26 million to upgrade two turbo generators at the mill that will add approximately 11 megawatts of capacity to the provincial grid. The installation work there is underway and on track.

We continue to make progress on other capital plans as well. We were able to reopen our Radium division in the fourth quarter of 2012 adding 240 million board feet of production capacity. Yesterday we announced a \$20 million investment in our Houston facility. This is in addition to the \$80 million of capital expenditures underway to improve efficiency at our Mackenzie and Elko facilities in British Columbia. Work is underway on the addition of a second production shift at our Conway mill in South Carolina, which produces Southern Yellow Pine dimension lumber. We're pleased to be able to

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continue to modernize our facilities as we look forward to improving markets.

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

Alan Nicholl, Chief Financial Officer

Thank you, Don, and good morning, everyone. My comments will focus principally on our financial performance for the first quarter of 2013 by reference to the previous quarter. I'll discuss the results of Canfor first and then Canfor Pulp second.

In my comments I'll be referring to our first quarter overview slide presentation, which you'll find on either the Canfor or Canfor Pulp websites in the Investor Relations section under Webcasts. Full detailed are contained in the Canfor and Canfor Pulp news releases both issued yesterday.

For the first quarter of 2013 Canfor reported equity shareholder net income of \$62 million or \$0.43 per share, well ahead of shareholder net income of \$21 million or \$0.15 a share reported for the fourth quarter of 2012 and the shareholder net loss of \$18 million or \$0.13 a share reported for the first quarter of 2012.

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 fourth and first quarters. In the first quarter these included mark-to-market gains in financial derivatives and a foreign exchange loss on long-term debt. The adjusting items also included Canfor's 50 percent share of income from the Canfor Louisiana-Pacific Peace Valley OSB joint venture, which in accordance with International Financial Reporting Standards was excluded from first quarter earnings, but it will be included in income when the transaction closes in the second quarter. The net impact of all of these items in the first quarter was approximately \$8 million or \$0.06 a share. After taking account of the aforementioned adjusting items the first quarter adjusted net income was \$70 million or \$0.49 a share. This represented a \$50 million or \$0.35 a share improvement from adjusted net income of \$20 million or \$0.14 a share for the fourth quarter of 2012.

With respect to our first quarter operating performance you'll see on slide four of our presentation that reported operating income was \$100 million, or \$111 million including our share of Peace Valley OSB's operating income, an increase of \$62 million from the prior quarter. This increase principally reflected improved pricing and higher shipments in the lumber segment. Operating

results for the pulp business also showed improvement, reflecting a modest gain in market pricing and slightly higher shipments. I'll speak more on our operating performance in a few minutes when I discuss the individual segment performances.

Slide five of our presentation shows the western SPF benchmark lumber prices for 2x4, #2&Btr and U.S. housing starts. U.S. lumber demand continued to strengthen as total starts averaged 969,000 units in Q1, a 7 percent increase from the previous quarter. The March seasonally-adjusted U.S. housing starts number of 1,036,000 was the highest in close to five years. This coupled with solid offshore demand pushed western SPF 2x4 prices to the highest level seen since 2006 on a Canadian dollar basis.

Turning to slide six, you'll note that the lumber segmented reported operating income of \$88 million for the first quarter of 2013, an increase of \$46 million from the previous quarter. The improvement in results principally reflected increased sales realizations in both North America and offshore compared to the previous quarter. Unit manufacturing costs were in line with the previous quarter with lower unit cash conversion costs offsetting modest increases in unit log costs. Higher production levels in the quarter reflected a full quarter of production at the recently restarted Radium mill as well as productivity gains.

Turning to slide seven, you'll note that Canfor's pulp and paper segment, which comprises the results of Canfor Pulp as well as the Company's Taylor BCTMP pulp mill reported first quarter operating income of \$19 million, a \$7 million improvement from the prior quarter. The main components of Canfor Pulp's results are highlighted on slide eight.

For the first quarter of 2013 Canfor Pulp reported net income of \$11 million or \$0.15 a share. This compared favourable to net income of \$5 million or \$0.08 a share for the fourth quarter and net income of \$10 million or \$0.12 a share for the first quarter of 2012. Staying on slide eight of our presentation, Canfor Pulp reported operating income of \$19 million for the first quarter, an improvement of \$7 million from the fourth quarter. The increase reflected moderately higher sales realizations and shipments combined with lower manufacturing costs. In addition, the Company benefited from a \$1.5 million tax credit in the period related to scientific research and development tax claims. In the prior quarter certain amendments to post retirement benefit plans added about \$5 million to operating income.

Turning to Canfor Pulp's pulp segment on slide nine, the first quarter operating income was \$15 million. That was approximately double that of the fourth quarter. Average

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U.S. dollar NBSK pulp list prices increased between \$15 and \$35 per tonne in all regions with North America moving up \$34 per tonne from the previous quarter and shipments were up 11,000 tonnes. However, realizations didn't match the full list price increases due to increased volumes to lower margin regions, principally China. Unit manufacturing cost decreased 3 percent in the quarter due to a decreased maintenance spending and slightly higher productivity. The first quarter pulp segment's results included the previously mentioned \$1.5 million scientific research and development tax credits while the fourth quarter results included \$4 million accounting gain in connection with the amendments to our post retirement plans.

Turning to Canfor Pulp's paper segment on slide ten, we reported first quarter operating earnings of \$6 million. That was down slightly from the prior quarter with a 3 percent increase in unit manufacturing costs and lower realized paper prices partially offsetting higher shipments. Yesterday the Canfor Pulp Board of Directors announced a dividend payout of \$0.05 per share for the quarter, consistent with the guidance given in February of similar payments throughout 2013. Capital spending in the first quarter totalled \$46 million, of which \$38 million was in the lumber business and \$7 million in Canfor Pulp. We currently anticipate that our 2013 capital spending for our lumber and pulp businesses will be around \$150 million and \$50 million respectively.

At the end of the quarter Canfor excluding Canfor Pulp had net debt of \$226 million with available liquidity of \$292 million. On April first the Company repaid its US\$75 million term not using its operating line of credit. It's expected that this will be paid off during the second quarter using cash flow from operations. At the end of March Canfor Pulp had net debt of \$95 million with available liquidity of \$108 million. Net debt to total capitalization excluding Canfor Pulp was around 16 percent and for Canfor Pulp it was around 20 percent. On a consolidated basis net debt to total capitalization was 19 percent.

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

Don Kayne, President & Chief Executive Officer

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

QUESTION AND ANSWER SESSION

Operator

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

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

The first question is from Daryl Swetlishoff. Your line is now open; please go ahead.

Daryl Swetlishoff, Raymond James

Thank you. Good morning, guys. Don, just a question on lumber markets, what you're seeing today in the various regions where you operate and with special attention to China in terms of inventories in logs and lumber, please.

Don Kayne, President & Chief Executive Officer

Thanks, Daryl. I'll talk three markets just real quickly, first of all Japan. Japan continues to be real, real strong, probably performed the best of the three, but certainly we're real encouraged both from a pricing standpoint but also from a volume standpoint in Japan. Solid quarter.

In terms of the United States, as you've no doubt heard several times here, we are seeing certainly some improvement in the United States market in the last quarter, you know, partly because of reflecting the improvement in overall housing starts in the United States. We think inventories are in pretty decent shape there as well. The only thing that probably caused it to be a little bit, ah, slowed off a little bit here towards the end of the quarter with some weather issues and whatnot, but for the most part we're pretty positive throughout the quarter in terms of our U.S. markets overall. Retail sales were good as well.

In terms of China, also, despite some of the comments there on China, Daryl, I mean from our standpoint we were very consistent to what we sold in Q4, almost identical numbers, and you want to go back to another period, say Q1 of 2012, it was actually up a little bit. So we haven't seen any reduction in terms of volume in China certainly in Q1 and going forward we don't expect it to change much either.

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Daryl Swetlishoff, Raymond James

Okay. So I understand that you're cautiously optimistic on pricing, the trend in pricing continuing, you know, we are seeing some weakness today in just the benchmark price in the current quarter, do you attribute this to anything structural or normal, seasonal kind of patterns?

Don Kayne, President & Chief Executive Officer

Yeah, I think that would be a good description there. I mean some of it is seasonal and I think that, you know, we've had a pretty good solid run here, as you know, through Q4 and on into the first part of Q1 and so just think this is nothing more than just kind of a typical, you know, just a little slower, slowing down for a little while here, but we certainly don't see that to be sustainable going forward at all, we think it'll continue to be pretty solid here going forward.

Daryl Swetlishoff, Raymond James

Okay, thanks for that. I'll turn it over.

Operator

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

Sean Steuart, TD Securities

Thanks. Good morning, guys. A couple questions, I guess first for Alan. The Canfor Pulp debt maturity, can you speak to I guess any updated thinking on refinancing options for that?

Alan Nicholl, Chief Financial Officer

Good morning, Sean. So currently, as you're aware, we have recently negotiated a \$110 million operating loan capacity late last year, if you recall. Our current plans are to use some cash that will build up in our business through the balance of the year and use some of that to pay off the \$110 million with the balance coming out of that operating loan, that higher operating loan facility.

Sean Steuart, TD Securities

Got it. And can you go through I guess the maintenance schedule at the pulp mills that you have planned through the remainder of the year, if you could just remind us of that?

Don Kayne, President & Chief Executive Officer

Brett, you can take that one.

Brett Robinson, President, Canfor Pulp

Sure. We just finished the Intercon shutdown on time, on budget and we're going to be moving into the Northwood shutdown in June. We're splitting the two lines and the longer of the two will be coming up in early July.

Sean Steuart, TD Securities

Okay. And then I guess just finally, I think we have a pretty good picture on most of the discretionary CapEx plans at the sawmills but can you, Don, just highlight the \$20 million you're spending at Houston? What you doing there?

Don Kayne, President & Chief Executive Officer

Yeah, basically at Houston we're going to be doing some work on the sawmill and, ah, a little bit, but probably the bulk of it will be though actually on the planer side.

Sean Steuart, TD Securities

Okay. That's all I had guys. Thanks very much.

Operator

Thank you. As a reminder, you may queue up for questions by pressing star one on your telephone keypad. The next question is from Mark Kennedy with CIBC World Markets. Please go ahead.

Mark Kennedy, CIBC World Markets

Good morning and congrats on a good quarter. Just wanted to clarify just on your CapEx comment there again, Alan. Did you say the planned CapEx is a \$150 million for Corp plus another \$50 million for pulp? So the

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combined consolidated CapEx would be \$200 million for this year?

Alan Nicholl, Chief Financial Officer

Yes, that's right, Mark. So that a \$150 million for our lumber business and just over \$50 million for our pulp business.

Mark Kennedy, CIBC World Markets

And just roughly, out of that \$150 million for the lumber business how much would you classify as maintenance and how much would you sort of classify as discretionary?

Alan Nicholl, Chief Financial Officer

Roughly about \$30 million, \$30 million to \$35 million would be maintenance. The bulk of it is high-return targeted capital upgrades.

Mark Kennedy, CIBC World Markets

Right. Okay. And then just coming to the bigger issue, obviously we saw one of the companies in the OSB space earlier this week announce a fairly healthy dividend and just wanted to see what your current thinking is here as you look forward into, you know, pretty reasonable building products markets and your plans for your free cash flow and how you're thinking about dividing that and using that going forward.

Alan Nicholl, Chief Financial Officer

Yes, well, Mark, say it's very earlier days still, as I think everybody will appreciate, but we've got a lot of strategic capital that we still have to spend, as we were just talking about, and I think we got a lot of different priorities that were going to be wrestling with over the next few years. And for sure we'll have to give thought to dividends as part of that but it will be one part of a discussion that includes many different types of items, as you'll appreciate.

Mark Kennedy, CIBC World Markets

Right. Right. Okay. Thank you.

Operator

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

Paul Quinn, RBC Capital Markets

Yes, thanks. Maybe you can just talk to, um, sort of you had an inventory build in the lumber side and we heard of similar things on the pulp side, weather related issues in the quarter and as well as railcar availability and how you expect to monetize those inventories over the next couple quarters.

Don Kayne, President & Chief Executive Officer

Sure, Paul. It's Don. Just on the lumber side, first of all, for the most part we had a pretty decent shipping quarter for sure. We did build a bit of inventory in the neighborhood of 15 million to 20 million feet overall, which is not in significant but certainly manageable, and we would expect by the end of Q2 to have been able to deal with that without a problem. Did we have any problems on transportation through the first quarter? Yes. I think you could probably attribute the bulk of that \$20 million increase to that specifically and that in combine with some of the weather issues that the railroads had during the quarter. But, yeah, but like I say, we expect to have that dealt with in Q2.

In terms of the pulp side, Sean, I don't—is there anything specific that you would want to say there? I know you're remote on the call but if there's anything you want to add on the pulp side you're welcome to do that.

Sean Curran, Vice-President, Sales & Marketing, Canfor Pulp

No actually, Don, I wouldn't add anything. It's pretty much the similar response that you just gave. Our inventories came up a little bit because of the delays and the biggest issue was service related issues back to our customers, but we are forecasting a return to regular inventory levels as we come into the latter part of second quarter.

Don Kayne, President & Chief Executive Officer

All right. Thanks, Sean and Paul.

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Paul Quinn, RBC Capital Markets

Okay. So just another question, just on, I guess, weather-related consumption activity. You guys noted the high starts levels but I'm, you know, looking through the news you see lots of weather-related issues in Q1 which would affect consumption of lumber, and we're seeing obviously lower prices. In talking to your customers is that a big concern right now and do you see that continuing into Q2 here?

Alan Nicholl, Chief Financial Officer

Well certainly the weather has been a concern, as I mentioned, in Q1 for sure. We expect that though as we go in more in the Q2 that that will start to be less of an impact. We do, you know, all the reports that we have from most our customer basis just speaking specifically about the U.S. is that across the nation really, ah, no specific area more than another, that definitely activity is showing some positive signs going forward. So I guess the other thing to also mention is that, you know, kind of numbers that you're seeing now too we believe also that we'll be able to continue to sell and even if we need to increase what we're moving into offshore markets also.

Paul Quinn, RBC Capital Markets

Okay. Then just lastly if you could just give us sort of your view on current pulp markets; We've got a big machine starting up in Russia right now; what do you think markets will hold at this point?

Don Kayne, President & Chief Executive Officer

Sean, why don't you go ahead and do that then, because we've just spoke about that yesterday at our pulp—

Sean Curran, Vice-President, Sales & Marketing, Canfor Pulp

Absolutely. Yes, very good question. You're right; they have the (inaudible) starting up. They have started up and you'll start to see that coming into the market in probably this month and coming in really into the next month into the month of June. But you've got to remember the offset to that is the rationalization at Fort Frances as well as the Kamloops line. And then the potential of the shutdown at Tofta(sp.) in Norway. If that

actually does happen then you have a balance. So one is offsetting the other so supply and demand will not be out of balance from where it is today. And pulp markets going forward, we still suggest that there is some moderate gains in this quarter coming up, especially with maintenance downtime taking effect we're still expecting another couple of days to come out of the producer stock, so Q2 I think you'll see a little bit more on the modest gains for price increases in most regions.

Paul Quinn, RBC Capital Markets

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

Operator

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

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

Don Kayne, President & Chief Executive Officer

Thanks operator, and thanks for all of you for participating in the call with us, and we look forward to talking once again at the end of Q2. Thank you very much.

Operator

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