

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.*

Brett Robinson

President, Canfor Pulp

Sean Curran

Vice President, Marketing and Sales, Canfor Pulp

CONFERENCE CALL PARTICIPANTS

Daryl Swetlishoff

Raymond James

Sean Steuart

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. Third Quarter Results 2013 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

Thank you, operator, and good morning, everyone, and thank you for joining us today.

With me today is Alan Nicholl, our CFO and Senior Vice President of Finance; Brett Robinson, our President of Canfor Pulp; Wayne Guthrie, our Senior Vice President of Marketing; Alistair Cook, our Senior Vice President of Operations for the Solid Wood side; and Sean Curran, our Vice President of Marketing and Sales for the Pulp Group.

I want to start out today by commenting on the announcement we made last week regarding our Quesnel facility. After 18 months of searching for a different solution we announced last week the permanent closure of our saw mill in Quesnel with closure anticipated in March of 2014. The decision was based solely on fibre availability in the Quesnel area and there is simply not enough timber remaining following the mountain pine beetle epidemic to support all of the mills in that community.

We also announced a fibre exchange agreement with West Fraser that will see us exchange our tenure in the Quesnel area with a comparable volume of tenure in the Morice TSA to supply our Houston facility. During U.S. housing crisis we had previously closed the Clear Lake and Rustad sawmills. The fibre position of our other facilities remained strong and we are confident we will be able to furnish all our mills with timber for the long term.

As we have announced, Canfor's key focus is on taking care of our people who are impacted by this difficult decision. We have committed that every person that wants to stay with Canfor will be given that opportunity and we will also provide placement assistance for those who wish to remain in the Cariboo region. We are working with the USW and the Jobs Ministry in placing employees and will provide regular updates as we progress through that process.

Moving on to results, Canfor posted a net income of \$28 million, down from \$110 million in Q2 while Canfor Pulp Products Incorporated reported net income of \$9 million, up from \$8 million in the second quarter. The consolidated result reflects lower lumber sales realizations, increased market stumpage costs, and lower lumber and pulp shipments. In the lumber segment, planned downtime for capital expenditure impacted productivity and shipments in the quarter. In the pulp

segment planned and unplanned downtime significantly reduced shipments. Residual issues related to the significant capital invested in the boilers through the Green Transformation Program continued to impact mill performance. Alan Nicholl, our Chief Financial Officer, will provide more details on our financials in a moment.

We also completed the phased purchase agreement of Scotch & Gulf Lumber in Q3. Canfor now owns 25 percent of Scotch & Gulf, which will increase to 100 percent over the three-year term of the agreement. We have first class management team at Scotch & Gulf and the initial results are very encouraging. We have continued to make progress on our capital plans, which reflected the significant upgrades in Mackenzie and Elko throughout the quarter. With those upgrades complete we expect to be running near full capacity in 2014.

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

Alan Nicholl

Thanks, Don, and good morning, everyone. My comments will focus principally on our financial performance for the third 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 third quarter overview slide presentation, which you'll 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 of which were issued yesterday.

For the third quarter of 2013 Canfor reported shareholder net income of \$28 million or \$0.20 a share compared to shareholder net income of \$110 million or \$0.70 a share reported for the second quarter of 2013 and \$21 million or \$0.14 a share reported for the third quarter of 2012.

On slide three of our presentation we highlight various non-operating items net of tax and non-controlling interests which affect the comparability of our results between the second and third quarters. In the third quarter these items had a net positive impact of approximately \$2 million or \$0.02 a share. After taking account of these adjusting items, the third quarter adjusted net income was \$26 million or \$0.18 a share. This represented a \$62 million or \$0.43 per share decrease from the adjusted net income of \$88 million or \$0.61 a share reported for the second quarter of 2013. The decline was largely attributable to lower operating

earnings from both our lumber and paper and pulp segments.

With respect to our third quarter operating performance, you'll see on slide four of our presentation that reported operating income was \$49 million, a decrease of \$79 million from the prior quarter. This decrease principally reflected lower lumber sales realizations, increased market stumpage costs, and lower production and shipment volumes in both the lumber and pulp segments. I'll speak more on our operating performance in a few moments when I discuss the individual segments.

Slide five shows the Western SPF benchmark lumber price for 2x4 #2&Btr and U.S. housing starts. Due to the government shutdown in the U.S., housing starts were not published for September; however, an average of July and August indicates that U.S. lumber demand improved somewhat as total U.S. housing starts averaged 870,000 units, a 2 percent increase from the previous quarter. This steadying of demand was reflected in the lumber prices, which stabilized after the sharp correction seen during the second quarter.

As can be seen on slide six, the lumber segment reported operating income of \$44 million for the third quarter of 2013, which represented a decrease of \$72 million from the prior quarter. The third quarter lumber results for the most part reflected lower sales realizations in part resulting from the spillover of the weaker market conditions from June, market stumpage driven log cost increases in BC, as well as lower production volumes resulting from capital projects completed during the current quarter. In addition, the lower sales realizations also reflected an average export tax of 5 percent and in most offshore markets where the majority of pricing is negotiated monthly or quarterly in advance the carryover of prices from late in the second quarter was more pronounced.

Canfor's pulp and paper segment principally comprises the results of Canfor Pulp Products Inc. As you can see on slide seven of our presentation, Canfor Pulp reported net income of \$9 million or \$0.13 a share compared to a net income of \$8 million or \$0.11 per share for the previous quarter and a net loss of \$5 million or \$0.7 per share for the third quarter of 2012.

Staying on slide seven, we've highlighted the common non-operating items net of tax which affect the compatibility of Canfor Pulp's results between the second and third quarters. The net positive impact of these items in the third quarter was approximately \$4 million or \$0.05 a share. After taking account of these items, Canfor post third quarter adjusted net income was \$6 million or \$0.08 a share, which represented a \$10 million or \$0.14 per

share decrease from adjusted net income of \$50 million or \$0.22 a share reported for the second quarter of 2013.

The main components of Canfor Pulp's results for the third quarter are highlighted on the slight eight of our presentation. Canfor Pulp's operating income was \$11 million for the third quarter, and that was down \$8 million from the previous quarter. This reduction was mostly related to the pulp segment where third quarter operating income at \$8 million was down \$7 million from the previous quarter. This decrease for the most part reflected higher fibre costs and lower production and shipments volumes, much of which related to scheduled outages and power outage disruption from lighting strikes during August.

Global U.S. NBSK pulp list prices held up fairly well during the traditionally slower summer period with demand and prices to most regions remaining stable through the quarter. Overall, pulp realization showed a modest increase, mostly due to a slightly weaker Canadian dollar. For the paper segment, Canfor Pulp reported third-quarter operating earnings of \$6 million. That was down \$1 million from the prior quarter. Compared to the second quarter of 2013, lower production shipment levels were again the principal factors for the decrease.

Capital spending in the third quarter totaled \$75 million, of which \$46 million was in the lumber business and \$27 million in Canfor Pulp. For Canfor Pulp, capital spending included the previously announced turbo-generator upgrade projects at Northwood and Intercon and the Northwood turbine upgrade is currently planned to be completed by the end of the first quarter of 2014 with the Intercon upgrade following about a year later. We currently anticipated that our 2013 capital spending for our lumber and pulp businesses will be around \$180 million and \$50 million respectively.

Yesterday, the Canfor Pulp Products' Board announced a dividend payment of \$0.05 per share for the quarter, consistent with the guidance given in February of similar payments throughout 2013.

During the third quarter, both Canfor and Canfor Pulp bought back company shares under existing normal course issuer bid programs. Canfor repurchased 610,000 shares at a cost of around \$13 million and Canfor Pulp repurchased around 97,000 shares at a cost of \$900,000. While 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 the remainder of the year.

In early August we completed the first phase of the purchase of Scotch & Gulf Lumber for \$29 million, including working capital and transaction costs, representing our initial 25 percent interest. As a reminder, this is a phased purchase that will take place through August 2016.

As Don has mentioned, after the quarter we announced the permanent closure of our Quesnel mill and the exchange of Timber Tenure with West Fraser. We currently estimate that the severance and closure costs associated with this Quesnel closure will be in the region of \$18 million to \$20 million before tax.

At the end of the third quarter Canfor excluding Canfor Pulp had cash of \$61 million with available liquidity of \$335 million. Canfor Pulp had cash of \$29 million with available liquidity of \$106 million. Net debt to total capitalization excluding Canfor Pulp was 3 percent, for Canfor Pulp it was 17 percent, and on a consolidated basis it averaged 8 percent.

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

Don Kayne

All right. Thanks, Alan, and, operator, we will now take questions.

QUESTION AND ANSWER SESSION

Operator

Thank you. We will now take questions from the telephone lines. 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. There will be a brief pause while participants register for questions. Thank you for your patience.

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

Daryl Swetlishoff

Thanks and good morning, guys. Don, I know you've spent a lot of time in Asia recently and I'd be interested in hearing what you saw on the market both in China and Japan/Korea? And, secondly, what do you think Canfor can do in terms of export growth to that region of the world over the next couple years?

Don Kayne

Sure, Daryl. I guess maybe just talk about Japan first.

We've been there a couple of times in last three months. I would, I guess, our view is in Japan, first of all, its strong, it's one of the better years, if not one of the best years we have had in Japan in many years on a number of fronts, but particular on the housing side it's been real good. What's encouraging there, I think, is some of the expansion to some of the other segments of the market in Japan, particularly in the seniors housing and commercial builders and those type of things. So we feel pretty good about Japan, not only this year but going on into next year. There is some concern about the consumption tax in April of next year and the impact that may have but behind all that we believe that there's just, there will continue to be just solid demand in growth for our products out of British Columbia going forward.

In terms of China, same story there. I know we had some issues this year I guess in June and maybe once or twice in addition to that but overall, from what we can see there, it's a very positive. We think that some of the new administration there is making some progress on what initiatives they have been talking about and putting in place and we think that's having an impact. So the market over there, I guess what's encouraging, Daryl, more than anything is aside from the solid takeaway in terms of demand is the type of demand, and we're seeing a very strong and continued growth in value-added type products, which is really what we wanted to see and we're now seeing that in a bigger and bigger way.

In Korea, ah, haven't been to Korea here lately but what I will say is that demand continues also to be consistent and we are seeing relatively good growth there as well on the housing side.

Daryl Swetlishoff

Thanks for that, Don. Now how would you define a value-added type product? That would be #2&Btr or anything else?

Don Kayne

Yeah, well, as you know that, that market really began in the low grades, you know, number three and lower, and has progressed to a lot larger percentage of #2&Btr and recently, maybe in the last six months, we are seeing an ongoing growth in some of the higher grades, the home

centre type product that we ship into the U.S., we're seeing some growth there as well as J grade and some other products as well in that type of category.

Daryl Swetlishoff

Now of course the utility is mostly concrete forming; what sort of end-uses would be the better types of lumber?

Don Kayne

Yeah, multiple uses. I mean it's going into new construction and we saw a lot of that in the last three to six months and even recently here on the (mission) that myself and Wayne attended with the minister. But I guess some of the other uses aside from that would be mostly in secondary manufacturing used for furniture and interior applications and sidings and tongue-and-groove paneling and those types of applications. But clearly in the country we are finding and our people are finding just more opportunities for that all the time.

Daryl Swetlishoff

Thanks for that, Don. I'll turn it over.

Don Kayne

All right. Thanks, Daryl.

Operator

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

Sean Steuart

Thanks. Good morning, everyone. Couple of questions on the pulp side. Wondering if you can review your downtime plans for 2014 and I guess mostly asking around Intercon if you're going to undergo a similar shut for boiler work to, I guess, similar to what you did with Northwood this year.

Don Kayne

Sean, I'll let Brett answer that question.

Brett Robinson

2014, no, we won't be doing major modifications to that boiler. It's in good shape and then there are no plans to do anything with the actual boiler. We do have a larger piping maintenance project on the high-pressure steam piping that would be on the other side of the boiler. It's about a 14-day outage planned for 2014 and we have minis plans at Northwood and PG as well.

Sean Steuart

Okay. Thanks, Brett. And I had a question for Alan, again on Canfor Pulp. After you pay off this November note maturity I guess liquidity for that company would get a little bit tight. Can you talk about any thoughts around maybe a new debt issue to shore up liquidity a little bit at Canfor Pulp?

Alan Nicholl

Yeah. Good morning, Sean. So, yeah, the current plan is to, as you say, is to use the cash we have on hand and our operating facility, which is, I think you are aware, \$110 million. So we'll be using part cash and part of that facility to repay the U.S. debt. We have plans in place to continue to keep our balance sheet fairly strong and you'll see that play right here in the fourth quarter. But liquidity is not a concern for me and maintaining the strength of our balance sheet is a key priority for us, as you would expect.

Sean Steuart

Could you speak to scope of the size of a potential debt issue you might look at?

Alan Nicholl

Well not just yet, Sean, but I can say that I think it will provide comfort to all looking our balance sheet, let me put it that way.

Sean Steuart

Got it. Okay. That's all I had. Thanks, guys.

Don Kayne

Thanks, Sean.

Operator

Thank you. As a reminder, please press star one at this time if you have a question. The following question is from Mark Kennedy from CIBC. Please go ahead.

Mark Kennedy

Good morning. Sorry, I'm fighting a bit of cold here, so excuse my voice, but just wondering if you can give us, ah, or are you prepared to give us CapEx guidance yet for 2014 for both Pulp and Canfor Corp?

Alan Nicholl

Good morning, Mark. Happy to do that. We are still working through that today but today we think it's going to be in the kind of \$150 million, \$170 million range for lumber and around \$50 million for pulp. But it's still early days and we are still working through those numbers, but that would be our preliminary guidance.

Mark Kennedy

Okay. And then out of that \$170 million, Alan, how much of that would you classify as maintenance versus discretionary?

Alan Nicholl

Yeah, I'd say around \$50 million is probably more typical maintenance effort there and the rest is discretionary.

Mark Kennedy

Okay. And so by the end of next year where would you say you are in terms of getting your mill, your sawmill network upgraded to where you want it to be? Are you 90 percent of the way there or can you give us any sort of guideline there?

Alan Nicholl

Yeah, well I think just going back to our previously-announced \$300 million capital initiative, I think we'll be substantially done with that by the end of this year/beginning of next year, and I think, to a large degree, a lot of our heavy lifting will be done and a lot of the significant projects that we've targeted will be done. The effort will be more on the smaller project aimed at sawmill productivity but a lot of our major effort will be completed.

Mark Kennedy

Okay. And then on the volume side, how should we think about that, say, going into I guess 2015. So with the closure of the Quesnel mill you'll be losing, what? About, ah, I think it's a couple of hundred million board feet of capacity there, but I guess with these other modernizations you're going to make it up, so would you say net-net you should be sort of even on the volume heading into 2015?

Don Kayne

We're basically saying on Quesnel—Mark, it's Don—we'll be about, ah, impact of that on an annual basis about 230, 240 million feet, and we would expect that through all those initiatives that you spoke about that at least half of that will be able to be recovered, and we're hoping for more than that.

Mark Kennedy

Okay, that's great. That's it for me. Thank you.

Operator

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

Paul Quinn

Yeah, thanks very much. I think on the Q2 call you mentioned the \$40 million you were going to spend at Elko and Mackenzie and I think you had a question about additional spending at Houston. Maybe now that I guess your Houston mill has got adequate fibre going forward is there a plan in place to upgrade that mill?

Don Kayne

Yeah, we are, we're looking at that right now, Paul, and we expect to hear something on that here over the next little while. Probably over the next four to eight weeks we should have some more solid things to say to you around that. But absolutely that's the plan.

Paul Quinn

So when you describe 2014 as running near full capacity, what is full capacity for Canfor right now?

Don Kayne

Combined everything including the Canfor southern pine and everything is about 5.2.

Paul Quinn

Great. And just question on capital allocation, especially at the Canfor Pulp side. You know, just noticed the share repurchase. How do you look at that versus an increase in the dividend and what are the metrics you're following around that?

Alan Nicholl

Good morning, Paul. I think, just to reiterate, our priorities for Canfor Pulp are debt repayment and select capital projects such as the energy projects that we've announced and are undertaking. For us I think we look at both and we chat to our Board about both those areas. We're comfortable with the dividend level for this quarter, as we mentioned.

We do continue to review that every quarter. And similarly with the share repurchasing, we take a similar approach there, so and that's really kind of, in a nutshell, what we seek to do and we do look very closely at it and are mindful of market conditions and how they may impact that allocation.

Paul Quinn

Okay. And just lastly on, I guess, pulp operations, it seems like you've had significant trouble at Northwood ever since you re-did the major \$110 million or \$120 million boiler upgrade. Following the Q3 shut here, is that—do you think you've got the operational issues behind you on that mill?

Don Kayne

Brett, go ahead.

Brett Robinson

Yeah, Paul, it's Brett here. Absolutely we're feeling good about it. We now have that boiler running right where the model said it should be, we don't have any carryover, and we're watching closely. It's obviously a real concern from a safety perspective. We don't want to get anything wrong so we're being very conscious in our approach there. The guys have done a great job and the boiler is looking much better. As well through the quarter I would just also remind you that the lighting outages resulted in nine outages at our facilities, which caused tremendous challenges through the quarter for us.

Paul Quinn

All right, fair enough. Good to hear. And maybe a question for Sean just on future pulp markets. In your commentary I think you mentioned you're happy with the momentum going into Q4 but worried about, or maybe worried was too strong a word, but the additional pulp capacity coming on in 2014. How do you see pricing environment in 2014 now?

Sean Curran

Thanks, Paul. It is Sean. I would say that we are following exactly what we did (inaudible) is that Q4 we see strength continuing through to the end of the year mainly driven by demand and tighter supply. Early part of 2014, I think like most people are looking at now, is there is some concern about the increased supply coming in. Russia coming on full stream and the hardwood coming in. But as we look further into the year at the end of 2014 we should see a better demand/supply balance. So first part of the year might be little bit more of a challenge but the balance of the year toward the end should be little bit better.

Paul Quinn

Great. That's all I had. Thanks, guys. Good luck.

Don Kayne

Thanks, Paul.

Operator

Thank you. There are no further questions registered at this time. This now concludes today's conference call. We thank all participants for joining us today.

Don Kayne

Thanks, operator, and thanks, everybody, for attending and we'll talk to you at the end of Q4.

Operator

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