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CONFERENCE CALL PARTICIPANTS

Mark Kennedy

CIBC World Markets

Sean Steuart

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PRESENTATION

Operator

Good morning, ladies and gentlemen. Welcome to the Canfor and Canfor Pulp third quarter analyst call. A recording and transcript of the call will be available on the Canfor and Canfor Pulp 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 release for the associated risks of such statements.

I would now like to turn the meeting over to Mr. Don Kayne, Canfor and Canfor Pulp's Chief Executive Officer. Please go ahead.

Don Kayne

Good morning, everyone, and thanks joining the Canfor and Canfor Pulp third quarter results conference call.

I will speak briefly to the result of both companies before I turn things over to Alan Nicholl, who is the Chief Financial Officer for both Canfor Corporation as well as Canfor Pulp Products Inc. Alan will provide a more detailed overview of our performance in quarter three, after which we will take some questions.

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

Canfor's net income for Q3 was \$46 million, down from \$54 million in quarter two. This largely reflects the higher than normal shipment levels we experienced in Q2 following the transportation challenges earlier this year. While lumber shipments were 9 percent lower in Q3 compared to Q2, lumber realizations were generally in line with the previous quarter.

Canfor Pulp posted a net income of \$24 million in Q3, which was up from \$19 million in Q2. Improvements reflect increased production versus Q2 due to scheduled maintenance shuts in that quarter. Pulp shipments were down 3 percent as compared with Q2, again reflecting abnormally high shipments in that quarter following the Vancouver Port Strike. Pulp markets were solid and global softwood pulp producer inventory levels returned to balance over the quarter.

We recently announced the acquisition of three mills in the southern United States. The operating assets of Beadles and Balfour Lumber located in Thomasville and Moultrie, Georgia, and Southern Lumber Company's mill in Hermanville, Mississippi. These announcements reflect our continued confidence in the Southern Yellow Pine market and a strong fibre basket and operating conditions there. We also announced the construction of two new pellet facilities that will be linked with our sawmills in Chetwynd and Fort St. John. We see pellets as a growth part of our business and increasing related energy production is a continuing area of focus for us.

With those introductory remarks, I will now turn the call over to Alan Nicholl to provide more details on Canfor and Canfor Pulp's financial results for the quarter.

Alan Nicholl

Thanks, Don, and good morning to everyone.

My comments this morning will focus principally on our financial performance for the third quarter of 2014 by reference to the previous quarter. Full details of our results are contained in the Canfor and Canfor Pulp news releases, which were issued on Wednesday and yesterday respectively.

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 and I will be referring to this presentation during my comments.

For the third quarter of 2014 Canfor reported shareholder net income of \$46 million or \$0.34 a share, down from \$54 million or \$0.39 a share for the second quarter of 2014 and up from \$28 million or \$0.20 a share reported for the third quarter of 2013.

On slide three of our presentation we highlight various non-operating items net of tax non-controlling interest, which affect the comparability of our results between the quarters. In the third quarter these items had a net negative impact of approximately \$5 million or \$0.04 a share. After taking account of these items, which related mostly to a mark-to-market adjustment on contingent consideration from the sale of our 50 percent ownership of Peace Valley OSB in 2013, the third quarter adjusted shareholder net income was \$51 million or \$0.38 a share compared to similarly adjusted net income of \$57 million or \$0.41 a share for the second quarter of 2014.

You will see on slide four of our presentation that Canfor's third quarter operating income was \$86 million, a decrease of \$12 million from the previous quarter. The decrease primarily reflected higher than normal lumber shipments in the second quarter following resolution of the transport-related challenges seen earlier in the year and higher unit log costs offset somewhat by an increase in Canfor Pulp's operating income in the current quarter mostly stemming from higher operating rates.

Results for the lumber segment are highlighted on slide five of our presentation. The current quarter's operating income was \$60 million. That was down \$15 million from the previous quarter. Most of this variance, as I mentioned, was attributable to lower shipments, which were down 9 percent or 113 million board feet from Q2 after the release in the previous quarter of the higher than normal inventory build from earlier in the year. Further impacting the third quarter lumber results were higher log costs reflecting increased logging and hauling costs as well as higher stumpage rates on logs processed by our mills in the period. Lumber sales realizations were

relatively stable with stronger North American lumber prices offset by lower offshore sales realizations.

Unit manufacturing costs reflect the higher log costs and, to a lesser extent, a modest increase in cash conversion cost due to lower lumber production. The lower production related really to a combination of one additional day of statutory downtime in Canada, continued capital ramp ups at several mills following several major capital upgrades, and semi-annual maintenance shuts at our southern pine operations in July.

Canfor's pulp and paper segment principally comprises the results of Canfor Pulp Products Inc. and as you can see on slide six of our presentation Canfor Pulp reported net income of \$24 million or \$0.34 a share compared to net income of \$19 million or \$0.27 a share for the second quarter of 2014 and net income of \$9 million or \$0.13 for the third quarter of 2013. Staying on slide six, Canfor Pulp's third quarter net income after taking account of onetime items was \$25 million or \$0.34 a share. This represented a \$7 million or \$0.08 per share increase from adjusted net income of \$18 million or \$0.26 a share for the second quarter.

The improvement in Canfor Pulp's results highlighted on slide seven mostly related to scheduled maintenance outages in both the pulp and paper businesses in the previous quarter, which more than offset modest decreases in pulp and paper shipments and pulp sales realizations in the current period. Pulp shipments were down 3 percent, principally as a result of the higher shipment volume in the second quarter relating to the aforementioned transportation challenges.

Canfor Pulp's paper segment earnings showed a \$3 million increase in operating income from the prior quarter, reflecting both the scheduled maintenance outage in the previous quarter and, to a lesser extent, modestly higher unit sales realizations in the current quarter. Capital spending in the third quarter totaled \$64 million, of which \$46 million was in the lumber business and \$16 million for Canfor Pulp. We are currently projecting 2014 total capital spending of approximately \$160 million for Canfor and close to \$60 million for Canfor Pulp.

During the third quarter Canfor Pulp repurchased 178,000 common shares under its normal course issuer bid, taking advantage of lower share prices that we saw during the quarter, and yesterday the Canfor Pulp Products Inc. board announced the dividend payment of \$0.0625 per share for the quarter, consistent with that of the previous quarter. At the end of the Q3 Canfor excluding Canfor Pulp had net debt of \$142 million with

available liquidity of \$191 million. Canfor Pulp had net debt of \$10 million with available liquidity of \$118 million. Net debt-to-total capitalization excluding Canfor Pulp was 9 percent, for Canfor Pulp it was 2 percent, and on a consolidated basis it was 9 percent.

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

Don Kayne

Thanks, Alan. And now, operator, we can turn the lines over to questions.

QUESTION AND ANSWER SESSION

Operator

Thank you. We will now take questions 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 key. Please press star one at this time if you have a question. There will be a brief pause while participants register. Thank you for your patience.

The first question is from Mark Kenned from CIBC. Please go ahead.

Mark Kennedy, CIBC World Markets

Good morning. I have a couple of questions. I guess I'll start I guess on your lumber side on your log costs. So like I know in BC it's a little different by regions but I guess two questions, Don. Is there sort of an average log cost you can give us in terms of a delivered log costs for the interior? And, secondly, how much further cost pressure you see on that number in 2015?

Don Kayne

Yeah, hi, Mark. Yeah, for sure. What I'll give you is just basically what we have seen in Q3 is an increase of about 5 percent, 6 percent, something in that order of magnitude, and we're expecting Q4 to be up slightly overall, not anywhere near what I just mentioned in Q3 but we'll see it go up slightly. In terms of 2015, we see in terms of total log cost inflation next year to be somewhat moderated from 2014.

Mark Kennedy, CIBC World Markets

Okay. So flat, if not, just a little bit down you mean.

Don Kayne

Yeah, correct.

Mark Kennedy, CIBC World Markets

Okay. And then I wanted to ask a question, and maybe you can decide who to answer it, but it's more on sort of the NBSK pulp price outlook look going forward here. Like on a net transaction price basis in U.S. dollars NBSK looks to be trading at or close to a \$200 premium right now over eucalyptus. So, going forward, do you think it's wise just to keep that the same so if eucalyptus prices go up maybe you get an increase but if eucalyptus prices are flat, um, do you think you are going to keep trying to push for further NBSK increases?

Don Kayne

Maybe on that one, Mark, I'll get Sean. Maybe you can comment on that.

Sean Curran

Sure. When you talk about spreads between NBSK and eucalyptus, if you look at (inaudible), ah, which they publish their numbers for October, I think they published yesterday or they day before, it's about \$140 spread in China and about a \$200 spread in the U.S. market. And Europe might be right around the \$180-\$170 level depending where that settles for this month.

To answer your question, I believe what you're asking is that if eucalyptus stays at the levels that's it will NBSK pricing move up? Is that what you are asking?

Mark Kennedy, CIBC World Markets

Right. Correct.

Sean Curran

I would suggest with eucalyptus starting to move up that spread where we have said I think publicly is somewhere in the area on a global average right around \$150. I

would suggest that your comment is correct. As eucalyptus moves up in price then probably NBSK will move up in price. The spreads of where we are right now globally are basically sustainable.

Mark Kennedy, CIBC World Markets

Okay. And then my last question, and I may have listed on your introductory comments, Don, but I know you just returned from a trade mission over to China and Japan and Korea and just sort of your significant takeaways there for lumber outlook in 2015 in those markets.

Don Kayne

Yeah, for sure. I'll just make a couple of comments and, Wayne, you jump in there too, because you were with me. But overall, again it was a very, very good mission. We think that these things are very worthwhile in terms of helping us from a market development standpoint. It was the most well attended, highest level mission that we've ever, that I've ever been on, and I've been on several of them, like a lot of us have in the industry. Overall though I thought that, um, certainly where we started out in China and I thought that it was, continues to be lots of opportunities. Very positive. We had some meetings with MOHURD that went really well. So we believe that China, despite some of the comments you here in terms of the press and whatnot, in terms of the conditions of the economy there and so forth, we felt it's just as strong going into 2015 as it has been and will be in 2014. So we are bullish on China overall for wood products and the consumption of them going forward.

In terms of Japan, same thing. Some concern I guess over the VAT tax that was added back in April and what they're going to do in terms of going forward and adding another X percent going forward. Lots of different views on that. But aside from all of that, in terms of the overall business, we think it's going to continue fairly strong going forward and just, you know, just going to pay attention a lot to that, but we see a lot of new opportunities in Japan.

Wayne, talk a little bit about that maybe for Mark. Some of the opportunities you are seeing there.

Wayne Guthrie

In Japan. Yeah, so, in Japan 2x4 housing is actually maintaining itself better some of the overall housing numbers, so we've got opportunities there, and I think a

big focus for the mission and a big focus of most of us in BC here is how do we diversify a little bit within Japan to get into the more traditional housing. And that's all brand new opportunity. So it will be hard work but we still opportunities there to maintain and maybe even increase our market share.

Mark Kennedy, CIBC World Markets

Okay, that's great. That's it for me. Thanks.

Don Kayne

Thanks, Mark.

Operator

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

Sean Steuart, TD Securities

Thanks. Good morning everyone. I got a one a bit late so I apologize in advance if you've covered this. The most recent acquisition in the south, Southern Lumber, it's more focused on, I guess, wider dimension lumber. Wondering, Don, if you can just speak to that acquisition's strategic fit with your existing platform in the region and I guess just more broadly I'm trying to gauge if this is more representative of the types of acquisition opportunities in the region going forward. Maybe just a bit more context on that acquisition.

Don Kayne

Yes, sure, Sean. I think, like we have been doing, I think, pretty consistently on all our acquisitions down there is certainly focused on the fibre for sure and the ability to have some high value flexibility in terms of the product mix, in terms of higher prime percentages than maybe what we have got accustomed to. And so Southern Lumber was probably, of all of them, they've all been for those reasons but Southern Lumber's probably the most, probably has the largest opportunity there from a high-value standpoint. So we like the location.

The logs there are quite a bit larger than any other operations that we have, which gives us a lot more flexibility than we've had anywhere else, so we like that. We also like the location and the ability to reach some of

the strong markets in the U.S. south there, particular Texas. So it gives us that opportunity as well. But overall it's probably, of all the acquisitions that we have made, probably the most opportunity upside in our view in terms of capturing the higher value product mix that we think we can get out of those logs there.

Sean Steuart, TD Securities

Okay. And I guess further to that, a lot of your recent marketing materials when you're referencing your U.S. platform and the growth you have there, there is some discussion of being able to access offshore demands with those mills. Can you give us a context of how much of your southern production, if any right now, is being shipped offshore and how you see that trending over the next several years?

Don Kayne

Yeah, I guess. First of all, not a lot yet, but it's more than it has been, but it's of a low base. So across all the operations, definitely there is more going offshore. But on a long-term basis certainly we believe the more options that you have and more access that you have to tidewater and give you that flexibility, the better we're going to be, because I do see the yellow pine, just in general with the specie itself and all the of the specie, it's going to provide us some actual opportunities down the road here. And so if you look at all those acquisitions, as you accurately point out, they are pretty darn close to tidewater.

Sean Steuart, TD Securities

Okay. And then lastly from me, as we look ahead to next year, Don or Alan, maybe just a bit of context in how you are thinking about capital allocation buckets for next year. I am not sure if you have set your CapEx budget yet but how you balance that with further share buybacks, M&A opportunities, maybe just give us a bit of context on what you're thinking on that front.

Don Kayne

Yeah, I mean, so just on the capital itself, I mean including the pellet plants that we announced that we are going to build, Sean, we anticipate next year we will spend about \$200 million overall on CFP and about \$60 million on CFX or Canfor Pulp.

Sean Steuart, TD Securities

Okay. And any thoughts on further, you've got lots of room on the balance sheet, thoughts on further share buybacks, dividend growth at Canfor Pulp, anything else along on those lines?

Don Kayne

Yeah, I think maybe what I could say is, you know, like we have talked about in the past, our number one priority for sure is making sure that we capitalize the mills that we have correctly and keep them competitive and top quartile going forward, which we have been doing and we will continue to do. In addition to that, both for CFX and for CFP really is to, you know, the other areas there of course is the share repurchases that we have been focused on throughout the year for both companies. In terms of Canfor Pulp separately, obviously the other consideration is the dividend side. And also with the strong quarter and the positive situation that we are getting to in terms of cash, um, and we expect that to continue into 2015 for sure, it does broaden some of the options that we will look at going forward for next year. And whether that be on energy projects or even potentially some M&A. I think all I will say is it's just broadened, broadens some of the opportunities that we will look at.

Sean Steuart, TD Securities

Okay. Thanks for the context. I'll get back in the queue.

Don Kayne

Okay. Thanks, Sean.

Operator

Thank you. There are no further questions registered at this time. This does conclude today's conference call. Please disconnect your lines at this time and we thank you for your participation.
