

## CANFOR CORPORATION SECOND QUARTER 2011 CONFERENCE CALL

### CORPORATE PARTICIPANTS

**Don Kayne**

*President & Chief Executive Officer*

**Alan Nicholl**

*Chief Financial Officer*

**Alistair Cook**

*Senior Vice-President, Wood Products Operations*

**Wayne Guthrie**

*Senior Vice-President, Sales & Marketing*

### CONFERENCE CALL PARTICIPANTS

**Pierre Lacroix**

*Desjardins Capital*

**Daryl Swetlishoff**

*Raymond James*

**Michael Ginnings**

*Synexus Capital*

**Sean Steuart**

*TD Securities*

**Paul Quinn**

*RBC Capital Markets*

**Mark Neilson**

*Prince George Citizen*

**Ross Marowits**

*The Canadian Press*

### PRESENTATION

**Operator**

Good morning ladies and gentlemen, Welcome to the Canfor Corporation Second Quarter Results 2011 conference call. A recording of the call and a transcript will be available on Canfor's website.

During this call, Canfor's Chief Financial Officer will be referring to a slide presentation that is available in the Investor Relations section of their website. Also the Company 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

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I would now like to turn the meeting over to Mr. Don Kayne, President and CEO of Canfor Corporation. Please go ahead, Mr. Kayne.

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

Thank you, operator.

Good morning everyone and welcome to Canfor's conference call to discuss the Company's second quarter results for 2011. I will speak very briefly about our quarter two highlights before turning it over to Alan Nicholl, our Chief Financial Officer. Alistair Cook, our Senior Vice President of Wood Products Operations, and Wayne Guthrie, our Senior Vice President of Sales and Marketing, are with me as well.

Yesterday, Canfor announced shareholder net income of \$26.2 million for the second quarter and an EBITDA of \$66.8 million. Alan will speak to our financial performance in a few minutes. Despite the fact that we are seeing a few more positive signs in the recovery of the U.S. economy, we still believe that recovery will be a very, very gradual process. June housing start figures were somewhat encouraging and U.S. corporate earnings appear to be improving. We do remain very cautious in our expectations and continue to believe that the U.S. will take another 18 to 24 months to reach more normal demand levels.

Total BC lumber sales to China exceeded those to the U.S. for the first time in May. A benchmark achievement that reflects many years of work on the part of Canfor, our industry colleagues, and the BC at Federal Government in creating this new market for solid wood. Continuing to aggressively work to develop wood frame construction with China's largest developers and builders will result in this market continuing to grow and strengthen well in to the future.

Year to date, Asia has represented 35 percent of our lumber shipments. Canfor is very focused on continuing to develop the Chinese market and on bringing about a successful transition into the widespread use of wood-frame construction in China. India, while presenting slightly different market entry challenges from what we experienced in China, offers considerable feature promise as well. Our Japanese market also continues to show very good progress despite that nation's severe earthquake and tsunami. Overall shipments to Japan continue to increase from quarter one.

I was in Japan in June and while we have some sense from North America of the scope of the devastation, it is hard to imagine just how severe it is without seeing first

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hand. For reconstruction it will take some time for a civil planning effort of this size to get underway. When Japan does start to rebuild, over time we expect that it will include about 200,000 homes. Many other wood-suitable structures were damaged or destroyed as well, including 800 nursing homes and hundreds of schools.

Despite growth in Asian and sales and early signs of recuperation in the U.S., we remain closely focused on costs across Company. We are making solid progress on our capital investment program, which will see us invest \$120 million this year in sawmill improvements and modernizations over and above normal maintenance spending. These investments will substantially improve our cost performance.

In Q1 we announced the capital program that included technology and efficiency investments at our Vavenby, Polar, and Plateau operations. Yesterday we announced a further \$46.7 million at our Grand Prairie and PG sawmill operations. These investments include planer upgrades in Grand Prairie and the purchase of TransAlta's Grand Prairie cogeneration facility as well as planer upgrade in our Prince George sawmill. We have also announced that our Vavenby operation will resume with a one-shift operation on September 6th. At full production the Vavenby mill will add about 240 million board feet to our capacity on an annual basis.

Lumber production is up from quarter one and lumber unit manufacturing costs are down, primarily due to productivity improvements. Weather challenges in the first quarter were followed by the wettest spring and summer in many years, which is having an effect on our harvesting operation and log hauling. Our woodlands group has been focused on maintaining supply to ensure normal operations.

I would like to now turn the call over to Alan to discuss Canfor's financial performance for the quarter.

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### Alan Nicholl, Chief Financial Officer

Thank you, Don. Good morning everyone.

In my comments on Canfor's second quarter financial performance I will be referring to our second quarter over a few slide presentations, which you will find on our website in the Investor Relations section. Full details and amounts are contained in our news release issued yesterday.

Our second quarter of 2011 equity shareholder net income, which includes just over a 50 percent share of earning from Canfor Pulp Limited Partnership, was \$2 million or \$0.01 per share. This compares to a net income

of \$7 million or \$0.05 per share for the first quarter of 2011 and a net income of \$21 million or \$0.15 per share for the second quarter of 2010.

On slide three of our presentation we highlight non-operating items that affect comparability of results between the first and second quarters. In the second quarter these items consisted of gains on the translation of U.S. dollar denominated debt into Canadian dollars, reflecting a stronger Canadian dollar, as well as gains on derivative financial instruments and also in the second quarter of one-time restructuring charge following the management re-organization that was announced in May. After taking account of these items the second quarter adjusted net income was \$3 million or \$0.02 per share and this compared to similarly adjusted net income of \$0.1 million for the first quarter of 2011, an increase of \$3 million or \$0.02 per share.

With respect to the second quarter operating performance you will see on slide four of our presentation that our total sales was \$619 million and this was about 1 percent lower than the prior quarter. EBITDA was \$67 million, a decrease of \$6 million from the first quarter. If you remove the effect of inventory devaluation adjustments in each quarter results EBITDA for the second quarter was \$65 million, which was down \$11 million from the \$76 million reported for the first quarter of 2011. For the most part this \$11 million variance is explained by lower solid wood sales realizations in the second quarter. I will speak more about this and the other contributing factors a little later in the business segment overviews.

Slide five shows the history of U.S. housing starts and western SPF benchmark lumber price in Canadian dollars and, as you can clearly see from the slide, the struggling U.S. housing sector continues to weigh heavily on North America lumber markets in the second quarter.

Turning to slide six you'll see that the lumber segment generated reported EBITDA of \$10 million in the second quarter of 2011 as compared to \$18 million for the previous quarter. In the second quarter we saw significant reductions in U.S. dollar benchmark 2x4 prices for both western SPF and southern yellow pine. Both were down around 18 percent quarter over quarter. However, declines across most solid grades and widths were less and prices for offshore markets, many of which are negotiated monthly or quarterly in advance, did hold up relatively well. The stronger Canadian dollar also eroded sales realizations in the quarter.

Shipments of Canfor-produced lumber were up 17 percent from the previous quarter and this reflected an improvement in the transportation networks after the

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(well) related challenges that we saw in the first quarter as well as increased demand from China. Our unit lumber manufacturing costs were down 3 percent from the previous quarter, reflecting improved productivity and lumber recoveries, which in part reflected some of the positive impact of several recently completed capital projects. Seasonally lower energy cost also contributed to the lower costs. The delivered unit log cost to our mills were substantially unchanged from the previous quarter.

If you turn to slide seven, moving to the pulp and paper segment, second quarter EBITA was \$63 million, which is down by just \$1 million compared to the first quarter of 2011 as a positive impact of higher U.S dollar NBSK pulp prices and, to a lesser degree, seasonally lower energy costs was offset by the combination of the stronger Canadian dollar, lower shipments, and higher fibre chemicals and maintenance costs. For more details of Canfor Pulp's results, please refer to their news release and the conference call they had last week.

Capital spending for the second quarter totalled \$56 million, of which \$25 million was for the lumber business and \$31 million for Canfor Pulp, of which \$20 million related to reimbursable green transformation program. For the 2011 year we anticipate that we will spend by \$140 million of capital on our lumber business.

At the end of the quarter Canfor, excluding Canfor Pulp, had a (inaudible) liquidity at \$450 million, which was comprised of \$104 million of cash and unused and (inaudible) lines of credit \$346 million. Our net debt to total capitalization excluding Canfor Pulp was just over 1 percent and on a consolidated basis was 6 percent.

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

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### Don Kayne, President & Chief Executive Officer

Thanks, Alan. Operator, I'd like to now open the call up to questions.

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### Operator

Certainly. We will now take questions from the telephone lines. We'll first take questions from the financial analysts, followed by the media. If you have a question, please press star one on your telephone keypad. If you are using a speakerphone, please lift your receiver and then press star one. If at any time you would like to cancel your question, please press the pound sign. Please press star one now if you have a question. There will be a brief pause while the participants register for questions. Thank you for your patience.

The first question is from Pierre Lacroix from Desjardins Capital. Please go ahead.

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### Pierre Lacroix, Desjardins Capital

Thanks. If you look at the pattern of the buying from Chinese customers over the last several months it has been relatively steady, expect maybe for one or two months in January and February of this year. How do you see that evolving going forward, Don, in terms of, you know, you know them and it's, ah, should we expect them to have a constant buying pattern or do you expect them to be price sensitive? And also do you see other kind of bottlenecks for the shipments such as do you reach a point where you have trouble to ship you lumber overseas because of availability of boat space or stuff like that? Can you discuss about all these issues?

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### Don Kayne, President & Chief Executive Officer

Sure. Thanks, Pierre. I guess just on your first part of the question around pricing and whatnot, you are absolutely right, through the first six months of this year for the most part we have saw a very steady takeaway month over month for the first six months. We really have not seen all that change although I will say in Q2 we actually saw the volumes increase overall to China.

Going forward we get a fairly good view of what is going on just by the amount of wood that we forward sell and we have not seen at this point any interruption in Q3 in terms of volumes. We are pleased with what we're seeing going forward. And we really do not see any material change, frankly, for the balance of the year. I think the ongoing focus that we see in the market in terms of trying to focus harder and harder on the wood-frame construction and some of the opportunities around that should help to maintain that. In terms of shipments, yeah, we did have some shipment issues in the first quarter, and even partly in the second quarter, just due to the increasing volumes, but that seems to have corrected itself now over the last four to six weeks and at this point we do not anticipate any issues with that going forward.

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### Pierre Lacroix, Desjardins Capital

What was the problems you had on the shipments side?

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### Don Kayne, President & Chief Executive Officer

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Just through the distribution centres that we have, just a significant volume, and then that combined with the weather caused some problems. You probably heard of some of the transportation issues around bridge washouts and rail track washouts and so forth and that caused us some delays.

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### **Pierre Lacroix, Desjardins Capital**

So that was on this side of the (trade) so it wasn't in BC and no problem on the boat side going on the sea side?

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

No, not really. I mean container availability and break bulk availability was fine.

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### **Pierre Lacroix, Desjardins Capital**

Okay. Forward sales, you mentioned that you have relatively good visibility on that, so what is the length of visibility you have on this? Is it a month, two months, three months?

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

Just based on what we are seeing from indications from our customer base with the next three months we anticipate being very similar to what we have been seeing in the past six months. So no real substantial change at all, just consistent strong sales throughout the rest of the quarter and on into the balance of the year.

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### **Pierre Lacroix, Desjardins Capital**

Okay. Thank you very much.

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### **Operator**

Thank you. The next question is from Daryl Swetlishoff from Raymond James. Please go ahead.

### **Daryl Swetlishoff, Raymond James**

Thanks. Good morning guys. Couple of questions. First just want to clarify that your logging cost changes. I understand that costs are higher year over year and that is primarily due to diesel but flat quarter over quarter. Is that correct?

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

That is correct.

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### **Daryl Swetlishoff, Raymond James**

Okay, thank you. Don, you typically have very good insight into the distribution chain; what is your sense today of inventory levels throughout the chain in the U.S. or North America?

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

Sure, Daryl. I think that, you know, as you are aware, during the first quarter we saw inventories probably peak and probably get to the highest levels they'd been in quite some time due to some of the issues that we faced throughout the supply chain, but we think substantial progress has been made in the second quarter, and not just with Canfor but also throughout the industry both Canada and even in the U.S. So we would say that while we are not probably down to the levels that we would like to see yet we have been seeing some substantial progress, largely because the rail system and the rail performance has improved significantly as we proceeded and moved through the second quarter. So hopefully that will continue. We expect that throughout Q3 and Q4 that those inventory reductions will continue.

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### **Daryl Swetlishoff, Raymond James**

Thanks for that. Just turning to your U.S. south operations, I know you've been paying a bit of attention there; what sort of potential improvements did you see in terms of either operations or marketing or whatnot there?

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

I think there is no question, you know, the yellow pine business has been a bit difficult, and largely due to the fact that it is more reliant than some of the other regions on the U.S. market, and we are no different than anybody else in that case, but we have ourselves, in the last while here, announced and have spent some money there on capital to try to improve the operations there, largely on the optimization side, so we are focused hard on cost and all that we could do to make sure that we as competitive as we can be on a cost side for sure going forward.

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On the marketing side we believe that there will be more opportunities for yellow pine, and we have seen some of that already, to diversify into some other markets, and we are seeing some of that in Asia even and also into other parts of Europe. So on terms of yellow pine, you know, we still believe until the U.S. comes back it will continue to be a tough business, but definitely with the cost improvements we are making and what we see on the marketing side we do see it improving going forward and definitely is a key focus for us.

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**Daryl Swetlishoff, Raymond James**

Great, thank a lot. I will turn it over.

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**Operator**

Thank you. The next question is from Michael Ginnings from Synexus Capital

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**Michael Ginnings, Synexus Capital**

Good morning guys. We saw in Q2 lumber shipments outpaced production by about 5 percent after lagging in Q1, and I think you mentioned some of the transportation issues; as we look at Q3 how should we think about volume? Is it more in line with Q1 or Q2 or are they kind of somewhere in between?

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

Michael, we see Q3 being very similar to normal patterns. In another words, more of a match between production and shipments.

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**Michael Ginnings, Synexus Capital**

Okay, great. And then you mentioned in the lumber segment specifically talking about how the North American price decreases weren't matched offshore and you talked about the length of the contracts being monthly or quarterly; is that something that is same in the U.S. or is it just internationally that there is kind of a lag versus the spot pricing?

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

We've talked about this before a little bit. I mean the bottom line is that we do typically in offshore business

sell a little bit longer, we tend to have a little bit longer order file of two, three months, so throughout the second quarter, as you are aware, SPF prices decreased, but we had a fairly lengthy order file in overseas business and so we were able to hold on to slightly higher price levels throughout the quarter. So overall I would say generally, on a general comment, that the returns on overseas markets in Q2 were measurably better than what they would have been in North America as a result of that.

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**Michael Ginnings, Synexus Capital**

Okay, great. That's all I had.

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**Operator**

Thank you. As a reminder for analysts, you may press star one if you have a question.

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

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**Sean Steuart, TD Securities**

Thanks. Good morning. A couple of questions. Don, wondering if you could touch on I guess more recent flooding in the interior in July and how that is affecting logistics, whether it is getting logs into the mills or getting product out, if that's having any impact at all.

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

Yeah, for sure it's had an impact, absolutely, and we have been fighting that probably every day almost, our woodlands people would tell, you throughout the second quarter. It seems like it just seems to rain every day. In terms of some of the impacts so far, the main thing probably is just that we've had to operate with extremely low log decks throughout Q2 due to that as we've had a continuing struggle to build any significant amount of inventory. So there was a lot of a cases just basically working hand-to-mouth throughout the quarter. And our woodlands people have just done a tremendous job making sure that we've had products or logs in front of our sawmills throughout the quarter. So it's definitely been an impact but we've been just fighting our way through it.

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**Sean Steuart, TD Securities**

Okay. And then the second question, I was just interested in your comments on India as an emerging market for you guys and wondering if you can speak to any marketing effort you've put into that market or is it just sort of taking the orders as they come right now.

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

Yeah, I would say the latter. I mean clearly there has not been any aggressive approach there at this point. We really view it as where China was probably ten years ago. It has just been in December of this past year that we have been able to focus on India at all. So we are in the real early stages of early market development there, but we do see a future there down the road and we are just going to continue to monitor that and make sure that we're a part of that as it moves forward.

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**Sean Steuart, TD Securities**

Thanks, that is all I had.

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**Operator**

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

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**Paul Quinn, RBC Capital Markets**

Good morning. Just a couple of questions. Just on hearing reports of growing lumber inventories in China, are you experiencing the same thing and hearing the same rumours?

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

Paul, we haven't. Look, sorry, we've heard the rumours but we are not seeing the result of that. And we've heard them for several months, maybe several quarters, and we continue to not see any interruption in our flow of products into the marketplace. So up to now, while there may be pockets of inventory throughout the country, and no doubt there probably is, we have not seen the impact materially as far as Canfor's concerned.

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**Paul Quinn, RBC Capital Markets**

Have you guys noticed any noticeable change in the use of your wood in terms of a growing percentage into a wood-frame construction?

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

Absolutely. And the way—wood-frame construction or components of wood-frame construction I guess, Paul, would be the best of saying that. I mean, just looking at just straight, you know, whether (thousands and thousands) or just 2x4 wood-frame construction or 2x4 wood-frame homes being built. Definitely they are increasing throughout the country and we see and hear a lot of that but, more importantly, what we see is more of the components of a wood-frame house, whether it be non-load-bearing walls or exterior walls in some cases, floors, trusses, those types of things, we definitely see increases in that. And we also see the remand business, both for domestic use as well as export use, increasing as well at a fairly brisk pace. So those will be the two areas and obviously the (concrete) forming side has continued like it always has been and has continued to be strong as well.

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**Paul Quinn, RBC Capital Markets**

Great. On the, ah, I guess the increased shipment volume to China, have we used up or brought down the availability of container and how much now are you doing break bulk? And I guess the real end question here is what is the cost and/or margin difference between the two, if they are different?

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

Sure. In terms of containers, we're 99.5 percent containers first of all, but what we are doing and you may have heard that Tolko, West Fraser, Canfor, and Western Forest Products have partnered on a break bulk vessel that we recently had built in Korea and it completed its first voyage and is on its way I think today or tomorrow on a second voyage over to Shanghai. And it is a break bulk vessel. And so we are just basically, as an industry, trying to make sure that we have some alternatives to just being so heavily reliant on containers. Although we haven't had too many interruptions here with containers either. Going forward, your question around cost, yeah it is a bit higher, but it has come down significantly from where it was, so we feel that the small increase in cost that is apparent is more than offset by mitigating some of the risk and making sure that we are prepared for the future growth in

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China and we have a satisfactory transportation network in which to deliver the product.

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### Paul Quinn, RBC Capital Markets

Sounds pretty reasonable. Okay. Just a question on, ah, M&A activity, just at a high level, have you seen any difference in the marketplace in terms of, ah, it looks like the recovery in the U.S. house market will be pushed out, have you seen any sawmills or potential acquisitions, been more amenable to that or any change at all?

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### Don Kayne, President & Chief Executive Officer

Yeah, I guess just on that, I mean I can't comment too much other than to say that going forward we are always looking at opportunities. But I mean with Canfor we are really, really just focused to start with here and it's a key focus of the Company, and we've spoke about it before but it continues, is to make sure that the existing operations that we have are operating absolutely as best as they can be and making sure that the capital plans that we have announced and are underway today and will take place over the next 12 to 24 months, that we're maximizing the productivity as quick as we can out of that. So that will continue to be of absolute priority. And then at the same time as opportunities arise for acquisitions or mergers, whatever, certainly there will be some that will come forward and we will just take a look at them and see if that makes any sense for us.

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### Paul Quinn, RBC Capital Markets

Okay. And just lastly sort of a modeling question. It seemed like your lumber realizations in Q2 were a little bit higher than I expected and it seems to be more of the lag in pricing drops in export markets. Is it fair to say that those will come down noticeably in Q3 here?

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### Don Kayne, President & Chief Executive Officer

I think what you will see in Q3 probably is a bit more traditional comparisons between North America and overseas markets, which really is more similar pricing, right? Because we are really getting into a worldwide price for (four inches) to benchmark, and we see that as being pretty consistent. The other thing though that will continue that has improved is the spread between some of the other items that we were speaking about prior quarters as a negative. It seems to be back to traditional spreads now. And particularly between 2x4 and 2x6 and

2x10. And so we see that continuing for the balance of this year.

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### Paul Quinn, RBC Capital Markets

Great thanks. Best of luck.

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### Operator

Thank you. This concludes the question and answer session for analysts. We will now proceed with questions from the media. If you have a question, please press star one.

The first question is from Mark Nielson from Prince George Citizen. Please go ahead.

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### Mark Neilson, Prince George Citizen

Hi. I guess probably the big news from Prince George's perspective is the planer upgrade at Prince George sawmill, and was wondering if you might be able to elaborate on what's planned, with the purpose is, the timeline, the cost, how many more people might be employed as a result, anything you can provide us.

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### Don Kayne, President & Chief Executive Officer

I think I will let Alistair answer that question, if you don't mind.

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### Alistair Cook, Senior Vice President, Wood Products Operations

Good morning, Mark. Absolutely. We are going to do a planer upgrade there in terms of some optimization and removing some of the bottlenecks that we see in the planer facility in Prince George. It will further improve the efficiency of that mill and continue to make it a low-cost producer for us. It looks like we will do the install sometime in December and start that mill backup in January.

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### Mark Neilson, Prince George Citizen

Can you say how much you'll be spending on it?

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**Alistair Cook, Senior Vice President, Wood Products Operations**

Roughly \$12 million.

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**Mark Neilson, Prince George Citizen**

And will that increase your employment at that particular sawmill?

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**Alistair Cook, Senior Vice President, Wood Products Operations**

We continue to look at those opportunities and it's going to allow us to run more efficiency and to utilize our capital better.

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**Mark Neilson, Prince George Citizen**

Thanks. If there are no other media I was just wondering if you could elaborate on the potential in India as compared to China.

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

Mark, we're not—I guess Canfor overall we think it is an opportunity and, like I was mentioning briefly there, we're kind of looking at it as perhaps where China was ten years ago, and we are in the very initial stages of trying to get our heads around just like parts of India provide the biggest opportunities, what are some of the products, and where do we really want to focus within the country. Because, like China, it is a huge country, and the first thing will be to try and determine what areas and what products have the best potential. So we will be putting some time into that over the next 12 months. But, like China, it is an emerging economy and an emerging market that we think that we definitely can add some value to going forward. So it is something that's, like I say, is in the early stages, but we are somewhat focused on that and see what kind of opportunities that we can bring to the table here going forward.

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**Mark Neilson, Prince George Citizen**

Thank you.

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**Operator**

Thank you. The next question is from Ross Marowits from The Canadian Press. Please go ahead.

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**Ross Marowits, The Canadian Press**

Hi. I just wanted to follow up on India as well. Can you give any indication as to who your competitors thus far from Canada and foreign competitors are in India?

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

Sure, Ross. I am not 100 percent sure yet, because it is relatively new, but I guess I would comment that, um, I would say that most of our Western Canadian competitors would certainly be viewing it probably in a similar way that we are in just initial market development and trying to assess just what the real opportunities are. And then other than that there is definitely a product that's being shipped in there from Europe, and we are seeing some of that, and that seems to be probably the biggest competition in terms, you know, at least going forward, that we may face.

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**Ross Marowits, The Canadian Press**

And are there any numbers in terms of dollar figures or quantity of lumber that you are shipping to India and when did that start?

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

We were only able to start shipping in December of 2010 and so we've shipped just a very small amount and it is not material at this point, but hopefully in 12 months when we speak with you I can say something a lot better.

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**Ross Marowits, The Canadian Press**

Is the use of wood or the barriers to getting wood into the country similar to China? Is there not a culture of using wood or how does it work there?

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

India, like China, has a culture of using wood going back many, many years, right, and so that is the attraction, but, again, it just comes down to making sure, these markets



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are so big and so widespread, making sure that you have a very focused approach in terms of what you are going to do within some of those large countries. Because you have many, many choices. So right now we are just kind of, we are basically looking at it like we did in China going back ten years ago to try to determine what that focus should be. But clearly there is a desire for wood in the country, they use a lot of wood today, it is just a question of where SPF sits in that.

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### Ross Marowits, The Canadian Press

Okay. And in terms of your forecast for Chinese shipments, it has grown a lot, where do you see that going forward?

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### Don Kayne, President & Chief Executive Officer

I'll speak to that more, if I can, rather than about Canfor, just as an industry and as a country in terms of consumption. We see huge opportunities in China going forward and there is no doubt that over the next five years we see no problem with the ability to double the volume going into China. The market continues to expand at a fast rate, much faster than what often we think, and so it's, this whole wood-frame construction side is really largely untapped.

We talk about it in different ways but overall that is really what we are all focused on as an industry and as a province and as a country. And that is really when we'll start to see the investments that we have all made pay back of pay off. And we are seeing the first signs of that and we see that continuing over the next, like I say, one, two, three years.

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### Ross Marowits, The Canadian Press

And finally can I ask you about the U.S. budget issues there? However it is resolved it sounds like there is going to be cuts in government spending. Are you concerned that that may delay the recovery and by how much?

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### Don Kayne, President & Chief Executive Officer

Yeah, we'll we're, like we are absolutely concerned about that, without question, but we, really in our view of the U.S. market going forward has always been one of caution for the last several years and it is going forward as well. Definitely there are some areas that are stronger than others in the country but clearly we believe that we

just need to be very, very cautious going forward. We think the recovery will take some time, 18 to 24 months, maybe even longer but certainly 18 to 24 months, and that is what we're preparing for through the diversification that we have in place with Asia and also the capital that we're focused on spending and delivering on at our sawmills to make sure that we can be as competitive as possible in case the U.S. doesn't come back at the rate we expect.

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### Ross Marowits, The Canadian Press

Thanks very much.

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### Operator

Thank you. This concludes today's question and answer session. I would like to join the meeting back over to Mr. Kayne.

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### Don Kayne, President & Chief Executive Officer

Thank you, operator. Thanks to all of you for participating and I look forward to speaking with you again at the end of the next quarter. Thanks very much.

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### Operator

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

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