**Canfor Corporation Second Quarter 2010 Conference Call**

Operator - Good morning, ladies and gentlemen. Welcome to the Canfor Corporation's first quarter results 2010 conference call. A recording of the call and a transcript will be available on Canfor's website.

During this call, Canfor's Chief Executive Officer and Chief Financial Officer will be referring to a slide presentation that is available in the Investor Relations section on 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.

I would now like to turn the meeting over to Mr. Jim Shepard, President and Chief Executive Officer of Canfor Corporation. Please go ahead, Mr. Shepard.

Jim Shepard – President and CEO: Thank you operator. Good morning everybody and welcome to Canfor's conference call to discuss the company's second quarter results for 2010. I am joined here today by Tom Sitar - Vice President of Finance and CFO. Don Kayne – Vice President of Marketing and Sales and Mark Feldinger – Vice President of Manufacturing. I will give a brief overview of the quarter and then Tom will speak to our financial results.

During our last call, we commented that the price of lumber was very solid and the industry as a whole was breathing a sigh of relief. This quarter we are once again reporting a profit. For the second quarter we had net income of $18.1 million or $0.13 per share, showing an improving trend over the $15.6 million or $0.11 per share in the first quarter.

Early in the quarter the price of 2x4 SPF lumber was above $300 per thousand board feet, but by the end of the quarter it had fallen below $200. Higher lumber prices that we experienced caused export prices on Canadian lumber shipped to the US to decline to 10% from 15% on BC shipments in May and to zero in June. NBSK pulp prices benefitted from a tight global supply, with list prices in the US market exceeding $1,000 US per tonne for the first time on record.

The high lumber price we saw earlier in the year was in part related to inventory replenishment and increasing offshore demand, rather than any sustainable demand increase in the US. And consequently, we didn't rush to increase our production, as we wanted to see evidence of real improvement of demand. And as it turned out, prices did drop quite sharply.

That said, we are moving ahead in our determination to produce more prime grade lumber. This has resulted in our investment in those mills with a green timber supply. As a result we started up our Chetwynd operation on one shift during the quarter. Much like the restart of our Mackenzie division last year, this was achieved through the engagement of our workforce and their commitment to operating as cost effectively as possible. This start up was announced last year based on demand numbers we projected at that time and was not tied to any of the price increases we saw in the spring.

We also restarted our Quesnel sawmill in June. The product produced by this sawmill is dedicated entirely to the Chinese market and that is a first for our Company. We've never before dedicated an entire sawmill to one country. This not only demonstrates the confidence we have in the future of China, but also is part of our strategy to diversify our markets. During the first half of 2010, 24% of our SPF lumber sales were to offshore markets, with half of that going to China. That represents a 1/3rd increase to offshore compared to 2009.

Finally, recently we also announced the agreement for the sale of Howe Sound Pulp and Paper to Paper Excellence B.V. This decision involves a non-core asset and reflects our strategy to focus on lumber production.

Now for more details of our financial results in the second quarter, I would now like to turn the call over to Tom Sitar…Tom.

Tom Sitar - Thank you, Jim. My comments this morning will focus on our financial results for the second quarter of 2010 and identify those items that affect comparability with other quarters and those factors that contributed significantly to our results.

During my comments I will refer to our Second Quarter overview slide presentation which is on our website. I will refer to it periodically. Also note that for ease of reference I will refer to all dollar amounts rounded to the nearest million, except of course the per share amounts, and of course full details and amounts are shown in our news release.

As Jim said, the second quarter equity shareholder net income, which includes our 50.2% share of earnings from Canfor Pulp Limited Partnership, was $18 million (or 13 cents per share). This compares to a net income of $16 million (or 11 cents per share) for the first quarter, and a net income of $11 million (or 7 cents per share) in the second quarter of 2009.

On slide 3 of our presentation we have highlighted the current
Quarter's non-operating items that affect comparability and they:

A loss of $9 million (6 cents per share) due to the effect of translation of our US dollar denominated debt, net of investments, as the Canadian dollar weakened over 4 cents compared to the prior quarter end.

The second item is a $1 million dollar or 1 cent per share loss on derivative financial instruments. Though the amount is small this quarter, we include it for consistency of adjustment between the quarters.

After taking account of these items, the second quarter adjusted net income is $28 million ($0.20 per share) compared to a similarly adjusted net income of $10 million ($0.07 per share) for the first quarter of 2010, or an improvement of $18 million ($0.13 per share).

Slide 4 shows the history of US housing starts and SPF lumber prices in Canadian dollars. This clearly shows the solid wood price rally that commenced in early 2010 before coming to an abrupt end mid-way through the second quarter. The short-lived nature of this price rally supports our view that it was largely the result of supply factors, rather than improving trend in the U.S.

Turning to our operating performance, [Slide 5 of our presentation] total gross sales were $57 million higher than the prior quarter. The Company generated positive EBITDA of $103 million, an increase of $25 million from the prior quarter. If you remove the effect of inventory devaluations reflected in each quarter's results, EBITDA in the second quarter was positive $108 million, an improvement of $53 million from the $55 million EBITDA in the first quarter of 2010.

Looking at each of our business segments in turn….

[Slide 6] The Lumber segment had EBITDA of $39 million in the second quarter, compared to EBITDA of $34 million for the first quarter. We had an inventory devaluation adjustment of $2 million in the second quarter compared to a $22 million recovery reported in the first quarter. When these items are adjusted out, EBITDA in the second quarter was $41 million, which represented a $30 million quarter over quarter improvement.

The improvement in lumber results primarily reflected higher sales realizations, due in part to lower export taxes; as Jim mentioned them, and improved sawmill residual chip prices.

Production was up 5% mostly as a result of a second shift at Mackenzie though the quarter and the restart of the Chetwynd and Quesnel sawmills. Unit manufacturing costs were little changed compared to the first quarter.

And now turning to the Pulp and Paper segment [Slide 7]……

Now, turning to the Pulp and Paper segments. The second quarter results reported for the pulp and paper segment include Canfor's Taylor Pulp Mill together with Canfor Pulp Limited Partnership. The second quarter EBITDA was $67 million and was up by $21 million compared to the first quarter of 2010 principally due to improved NBSK pulp market prices. Higher fiber costs, resulting from increased residual chip prices, and higher freight costs were partly offset by lower energy costs. Canfor Pulp had a record quarter on several measures including profit, total production and production per day.

Details of results for Canfor Pulp Limited Partnership, of which we own 50.2%, were discussed in the Canfor Pulp Income Funds' news release and conference call last week.

For the quarter, our capital expenditures were $24 million, which was comprised of $19 million for the solid wood business and $5 million for Canfor Pulp. We expect that our capital spending for full year 2010 will be about $100 million, on the lumber side. We are taking steps to technologically upgrade some of our mills. These are principally improvements in cost profile and grade outturn rather than increases in capacity.

At the end of the quarter, Canfor, excluding Canfor Pulp, had cash of $187 million and unused lines of credit of approximately $387 million. Our net debt to total capitalization, excluding Canfor Pulp was 3%, and on a consolidated basis it was 6%.

As Jim mentioned, after the quarter end we announced the sale of Howe Sound Limited Partnership to Paper Excellence. We expect this transaction to close in the third quarter. Due to uncertainty of closing adjustments we will not provide guidance on proceeds but we don't expect the transaction to have a material effect on our net income.

And Jim, with that I would like to turn the call back over to you.

Thank you, Tom.

The past two quarters demonstrated how sensitive lumber prices can be to even slight changes to the supply demand balance. Nevertheless, we will continue to operate in a cost-constrained manner, reflective of the weak US housing market while focussing on our growth opportunities in the off-shore markets.

Longer term, I remain optimistic that the lumber supply-demand balance will tilt substantially in favour of the producers. We have been prudently investing in our key strategic facilities to enhance our competitiveness and ability to be a long-term supplier of quality products to our highly-valued customers.

Operator, I would now like to ask that we take questions from the telephone lines. (Operator instructions)

Our first question is from Steven Atkinson from BMO. Please go ahead.

Steven Atkinson – Good Morning, good results. First thing I was looking at was do you see any change in stumpage or in wood costs in the near future, especially this coming quarter?

Jim Shepard – No, we do not.

Steven Atkinson – And in terms of the export market, any changes there, improvements, you know obviously there was a pick up earlier in the year, but um, what's your position now.

Jim Shepard – We see that our market is continuing on its path of growth.

Don Kayne – Yes, we expect it to be pretty consistent for the balance of the year.

Steven Atkinson – OK. Can you give me your Cap Ex for this year and next?

Tom Sitar – Well as I said on the lumber side $100 million for the full year and at this point we haven't provided guidance for next year.

Steven Atkinson – OK, thanks Tom.

Operator – Thank you, the next question is from Daryl Swetlishoff from Raymond James. Please go ahead.

Daryl Swetlishoff – Thanks, good morning everybody. Jim, maybe you could give us a bit more color on what you're seeing currently in the Chinese lumber market. Is there any changes? I know that you are one of the most active in that and I would appreciate any insight you have.

Jim Shepard – Well, I think the thing that's most profound about the Chinese market besides the fact that the volume is growing almost exponentially, is the increase into the amount of 2 & Better that we are shipping over there. You know, when we first started just about a few years ago, just about all the economy and low grade lumber for stuff like reman and mostly concrete forming. But now it's moved into a higher value use. And that is very significant because we see that continuing to happen. That's just basically the improving awareness of the advantages of building with wood in China.

Daryl Swetlishoff – What do you think this #2 & Better, what sort of end uses might that be?

Jim Shepard – That's home frame construction. Houses.

Daryl Swetlishoff – OK, that's great. The lumber price increases lagged in the first quarter that you felt that because your offshore program with prices down can we expect corresponding benefit as the decreases lag as well in the offshore sales?

Jim Shepard - I'm going to turn that over to Don.

Don Kayne – Thanks Daryl. Yeah, um, exactly, it did lag in Q1. We feel it's very similar for Q2 and expect that going forward to also be very similar to the US and Canadian market. The only caveat, as always, is the timing. Part of it, which we encounter in every market.

Daryl Swetlishoff – OK, so prices in the off shore markets, just to be clear, could hold up better than that North American trend?

Don Kayne – Absolutely.

Daryl Swetlishoff – OK, thanks for that, thanks guys.

Operator – Thank you, the next question is from Jonathon Lethbridge from CIBC. Please go ahead.

Jonathon Lethbridge – Thanks, good morning. I was just wondering if you could provide a rough breakdown on the shipments to China by grade or quality.

Don Kayne – We have increased significantly, as Jim mentioned, I mean it was 2 years ago it was basically zero into some of the higher grades, so now we're upward of plus, 30% plus now. And we see that continuing to increase much higher, even going forward, you know as we continue to expand into the different markets there, rather than just the industrial and the (indecipherable) markets as Jim already commented on.

Jonathon Lethbridge – OK. Thank you. The other question, I just have 2 others, in terms of the restructuring costs, can you provide a breakdown of the 5.8? I think most of it was in lumber, but I was just wondering what the balance was?

Tom Sitar – We don't provide the detail of the breakdown, so I'm not ready to split that further than that.

Jonathon Lethbridge – OK, fine. And thee last question on Cap Ex, in terms of the $100 million, is it going to be focused on a few mills or will it be wide spread amongst most of your mills?

Tom Sitar – No, it's focused on several mills and specific projects. Sure, there is some parts of that apply to maintenance capital throughout the fleet but the majority are several projects at Key mills.

Jim Shepard – The 2 key areas are, first of all, we are making very focused investments to improve the cost competitiveness of our mills. But we are also investing specific in those mills which have a good future with green fiber supply.

Jonathon Lethbridge – Gotcha. Ok. Thank you.

Operator – Thank you, the next question is from Sean Stewart from TD Newcrest. Please go ahead.

Sean Stewart – Just wondering if you could comment on the balance sheet? You're arguably in an over capitalized position now, lots of liquidity and not a lot of debt. Can you comment on, I guess your near term strategy, are you just content to wait through the trough and pricing before you start to spend more aggressively, and maybe some thoughts on consolidation activity given the strength of the balance sheet?

Tom Sitar – Well, Sean, you know that, in terms of consolidation debt activity, we won't comment on future looking speculation. But in terms of capital spending, $100 million for this year is a decent number in a pretty slow market, even though with that brief run up, and we do have plans for further upgrades to our mills, just as Jim commented in continuing to improve the cost competitiveness grade out-turn and we do have plans for higher spending nest year but the specifics of that number, at this stage, we're not ready to comment on, but we do have a growing plan for improving a number of those mills.

Sean Stewart – When you look at the balance thought Tom, are you comfortable with the debt to equity ratio of your capital structure right now or is it something you'd like to lever up a bit over time?

Tom Sitar – Well, we won't lever up the balance sheet just so we've leverage the balance sheet. That will be a result if investment activity and the markets that we face. We have been very happy with the strength of the balance sheet to take us through the recent down turn and as prices indicate, we are not completely out of it yet.

Jim Shepard – We're going to keep our power dry for the time being.

Sean Stewart – Ok, that's great! Thanks guys.

Operator – Our next questions if from Paul Quinn from RBC capital markets. Please go ahead.

Paul Quinn – I just have a question on Southern Yellow Pine, we saw prices jump significantly in the quarter, your production was up, not as significant as some of the other producers. Can you comment on that?

Don Kayne – I can comment a little bit on the price, the increase, both spruce and yellow pine increased and as you know, yellow pine increased more significantly, and we attribute that primarily just to the low inventory levels on the southern yellow pine side going in. From a dressed standpoint, but also they had very low inventories as well and that combined with the poor weather that was existing in the first quarter in the south east that also made it very difficult for a lot of the yellow pine producers to bring in logs which caused a further shortage. So, I think those 2 things, plus of course, there has been some pretty good curtailments on the southern yellow pine side. So, if you add that all together, there was just more pressure on the supply side on yellow pine and perhaps spruce.

Paul Quinn – OK, and in terms of your response to that price increase, is that a strategy, you didn't expect the prices to stay up high?

Jim Shepard – Our determination is to maintain is to maintain our production to meet the demands of the market place. We wanted to wait and see if there was a sustainability to what looked like a market recovery and it turned out it was a Roman candle market recovery, right up and right down.

Paul Quinn – And in terms of your conversion costs overall, pretty happy with way the mills are operating right now?

Mark Feldinger – Paul, its Mark here. We're reasonably happy with where we are. We still have improvements that we are targeting and we'll make.

Paul Quinn – And in terms of, you looked like you were at 2/3rds operating rate in Q2, looks like you'll be running 75% in Q3. Should we expect costs to increase as we bring on; I guess arguably, higher cost mills?

Mark Feldinger – We would not expect to see that based upon our projections.

Paul Quinn – Well that sounds good! Thanks a lot guys.

Operator - There are no further questions at this time. I'd like to turn the meeting back over to Mr. Shepard.

Thank you everybody for coming online and showing you interest in Canfor. We are cautiously optimistic as we go into the future. Like I say, long term we are optimistic about the supply demand equation in front of us for lumber, for southern yellow pine and SPF. Thanks for your interest and we look forward to talking with you next quarter.