

CANFOR CORPORATION THIRD QUARTER 2011 CONFERENCE CALL

CORPORATE PARTICIPANTS

Don Kayne

President & Chief Executive Officer

Alan Nicholl

Senior Vice President, Finance & Chief Financial Officer

Alistair Cook

Senior Vice President, Wood Projects Operations

CONFERENCE CALL PARTICIPANTS

Daryl Swetlishoff

Raymond James

Sean Steuart

TD Securities

Paul Quinn

RBC Capital Markets

PRESENTATION

Operator

Good morning, ladies and gentlemen. Welcome to the Canfor Corporation Third Quarter Results 2011 Conference Call. A recording of the call and the 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 on their website. Also the Company would like to point out that 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, President and CEO of Canfor Corporation. Please go ahead, Mr. Kayne.

Don Kayne, President & Chief Executive Officer

Thank you, operator, and good morning everyone and welcome to Canfor's conference call to discuss the Company's third quarter results for 2011. I will speak very briefly about our Q3 highlights before turning the call over to Alan Nicholl, who is our Chief Financial Officer. Alistair Cook, our Senior VP of Wood Products Operations, and Wayne Guthrie, our Senior VP of Sales and Marketing,

are with me as well to answer any questions you may have specific to their responsibility areas.

Yesterday we reported an adjusted loss from continuing operations of \$1.8 million on sales of \$602 million for the third quarter and an EBITDA of \$54.4 million. Alan will speak to our financial performance in a few minutes.

Conditions in the United States housing market remained relatively flat over the quarter, in line with forecast expectations. We continue to anticipate that a further 18 to 24 months will be necessary to see the U.S. return to more normal levels.

Our Asia-Pacific business continues to be exceptionally strong. Offshore lumber shipments increased by 5 percent over Q2 and are 68 percent higher than the same quarter in 2010. Offshore shipments reached new record high levels based on continued strength from China as well as steady consumption from Japan and Korea. And we anticipate steady growth in demand from the Asia-Pacific markets going forward. In China we are seeing particular strength in the remanufacturing segment as well as growing demand from geographies beyond Shanghai and Beijing areas. Looking forward, our focused and consistent efforts to support the uptake of wood-frame construction among China's major developers and builders will result in continued growth into the future.

As was the case in the second quarter, continued severe weather affected our British Columbia and Alberta operations over the summer, resulting in higher log costs based on longer haul distances, additional road maintenance costs, and some external purchases.

Overall for Q3, lumber production was up 3 percent. We continued to make very strong progress on our capital program and restarted of our Vavenby sawmill on September sixth. A major planer upgrade at Polar sawmill is complete and the energy systems at the Plateau and Chetwynd sawmills are also on target.

Our capital program investments are delivering solid results and our cost performance and productivity is strengthening across the operations. We remain very confident in our Asia-Pacific markets and exceptional customer base in China, Japan, and other countries. As demand recovers in North America and continues to grow in Asia, Canfor will be positioned to prosper.

I'd like to now turn the call over to Alan Nicholl to discuss Canfor's financial performance in the quarter.

Alan Nicholl, Senior Vice President, Finance & Chief Financial Officer

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Thanks, Don, and good morning everyone. My comments will be principally focused on our financial performance for the third quarter of 2011 by reference to the previous quarter. In my comments, I will be referring to our third quarter overview slide presentation, 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 third quarter of 2011 equity shareholder net loss, which includes our 50.2 percent share of earnings from Canfor Pulp Limited Partnership, was \$22 million, or \$0.15 per share. This compares to a net income of \$2 million, or \$0.01 a share, for the second quarter of 2011 and a net income of \$9 million, or \$0.06 a share, for the third quarter of 2010.

On slide three of our presentation we highlight non-operating items that affect comparability of results between the second and third quarters. In the third quarter these items consisted of a loss on the translation of U.S. dollar denominated debt into Canadian dollars that reflected a stronger U.S. dollar; a net loss on derivative financial instruments, which is also largely attributable to the strengthening of the U.S. dollar; and a mark-to-market decrease in the fair value of our asset-backed commercial paper. After taking account of these items, the third quarter adjusted loss was \$2 million, or \$0.01 of share. This compares to a similarly adjusted net income of \$3 million, or \$0.02 a share, for the second quarter, a decrease of \$5 million, or \$0.03 per share.

With respect to our third quarter operating performance, you will see on slide four of our presentation that our total sales were \$602 million, and this was about 3 percent lower than the prior quarter. EBITDA was \$54 million, a decrease of \$12 million from the prior quarter. Almost all of this \$12 million variance was in the pulp and paper segment and reflect the downtime taken by Canfor Pulp for its Northwood Mills boiler upgrade as well as lower NBSK pulp prices.

Slide five shows the history of U.S. housing starts in western SPF benchmark lumber prices in Canadian dollars and, as you can see, the U.S. housing sector continued to weigh heavily on the North American lumber market in the third quarter. The small uptick that we saw was principally related to multifamily starts, which consume a smaller proportion of lumber than single-family starts.

Turning to slide six, the lumber segment reported EBITDA of \$10 million in the third quarter of 2011, which was in line with the previous quarter. For the third quarter, the North American Western SPF benchmark

2x4 two-and-better price moved up about \$9 per thousand board feet. Sales realizations from offshore markets, where prices are typically negotiated monthly or quarterly in advance, showed a modest decrease from the prior quarter. Overall, shipments of Canfor for just lumber were in line with the previous quarter and offshore shipments were up 5 percent from the second quarter and up almost (70) percent from the levels seen in the third quarter of 2010. Our unit lumber manufacturing costs were up slightly from the previous quarter with the positive impact of productivity improvements more than offset by a modest increase in unit log costs. The latter reflected the impact of severe wet weather on BC interior logging operations as well as higher logging costs.

Turning to slide seven, the pulp and paper segment reported third quarter EBITDA of \$52 million, and this is down \$12 million compared to the second quarter. Pulp list prices for U.S. delivery fell about \$32 a tonne while prices to China saw steeper declines. The impact of the lower U.S. prices was tempered somewhat by the weakening of the Canadian dollar. Pulp production was down just over 40,000 tonnes or 13 percent from the previous quarter and this substantially reflected downtime for the previously-mentioned Northwood boiler upgrade. More details of Canfor Pulp's results were discussed in their news release and conference call earlier this week.

Capital spending in the third quarter totalled \$79 million. \$44 million of this was for the lumber business and \$35 million was for Canfor Pulp, of which \$24 million related to the reimbursable Green Transformation Program. For the 2011 year we anticipate that we'll spend capital of about \$150 million in our lumber business and of this about \$125 million is being applied to sawmill improvement projects. At the end of the quarter Canfor excluding Canfor Pulp had available liquidity of \$416 million, which was comprised of \$69 million of cash and \$347 million of unused and available lines of credit. Net debt to total capitalization excluding Canfor Pulp was about over 5 percent. Including Canfor Pulp it was approximately 9 percent.

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

Don Kayne, President & Chief Executive Officer

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

QUESTION AND ANSWER SESSION

Operator

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Thank you. We will now take questions from the telephone lines. We will first take questions from 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 press star one. If at any time you would like to cancel your question, please press the pound sign. Please press star one at this time if you have a question. There will be a brief pause while participants register and we thank you for your patience.

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

Daryl Swetlishoff, Raymond James

Thanks. Good morning guys. Just a question first on log cost inflation. It seems to be bit of a part of the permanent part of the landscape going forward with a lot of your activities being further field. Can you just detail some of your capital spend? Like what is Canfor going to do on your operating cost to help mitigate this going forward?

Don Kayne, President & Chief Executive Officer

Thanks, Daryl. This is Don. I guess few things. I mean you're right; we've seen a bit of an increase of late here. And we are focused on again hard, and part of it is the capital program that we announced I guess a year ago a little bit over that, is just to focus hard on our conversion costs and all that we can do at the specific operations to make sure that we get those as competitive as we can. So we're focused hard through the capital programs as well as efficiency improvements, which we're seeing also across the Company. So we've been focused on that for a quite some time, not just recently, although the capital program certainly has had a huge impact on us and we are starting to see that more frequently here as we go forward.

Daryl Swetlishoff, Raymond James

Thanks for that. Don, you typically have a good finger on the pulse of the market and what's your sense right now with respect to the amount of lumber in the supply chain both in North America and also Asia-Pacific?

Don Kayne, President & Chief Executive Officer

Maybe dealing with North America right now, I mean we would say that, you know, partially because the North

American market, particularly the U.S., continues to struggle, as you know, we would say that the overall inventory level there is probably somewhat balanced, although of late here we probably would say there has been a bit of an increase in terms of inventory levels in the United States. And of course we are seeing some of the results of that here on the prices of late. Although we do hope to and expect that that will reversal itself as we move into the first quarter next year and onwards. In some of the segments, particularly the home center side, we are starting to see a little bit better takeaways there.

In terms of Asia Pacific, I'll just talk about two markets quickly in Japan. Japan continues to be very strong. We expect that to continue through Q4 and hopefully on into Q1. But we really haven't seen any issues there whatsoever and think that the supply chain there is absolutely in pretty balanced shape going forward. In terms of China, there's been a lot of talk about that. I mean from our standpoint we haven't, up to now at least, we haven't seen any weaknesses at all and our takeaways have been good. We think we have a pretty balanced customer base in China, as we've spoke about before. However, with the Lunar New Year coming up here in January, which is a little bit earlier than we've typically seen it, we would say that the inventory levels there are probably up a little bit higher than they would have been throughout the year, although that's typically what we have seen regularly during this time of the year as well. So we don't see it as being a major issue though at all and we are more focused just hard on continuing to try and develop some of the alternative segments that we have been focused on in addition to the wood-frame housing sites. So yeah, China, perhaps a little bit higher inventory levels than we would like, but certainly nothing that we would consider a major issue.

Daryl Swetlishoff, Raymond James

Just ceding off that a bit, ah, what you are seeing right now with respect to your shipments to China differentiating between the structural grades and then the utility grades?

Don Kayne, President & Chief Executive Officer

Definitely we see an increasing trend towards two-and-better and including even higher than two-and-better grades.

Daryl Swetlishoff, Raymond James

Can you give me an approximate split of what you might be at year to date?

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Don Kayne, President & Chief Executive Officer

On a year-to-date basis we're probably, I would say, approaching, just on average, over 40, 50 percent.

Daryl Swetlishoff, Raymond James

Okay. That's great. Thanks, Don. I'll turn it over.

Don Kayne, President & Chief Executive Officer

Okay. Thanks, Daryl.

Operator

Thank you. As a reminder, please press star one if you have any questions or comments. There are no further questions registered from analysts. We'll now poll for—we have a question from Sean Steuart from TD Securities. Please go ahead.

Sean Steuart, TD Securities

Thanks. Good morning everyone. Just a question, Don, on the sawmill costs this quarter. You touched on logging costs but in the text in the Q3 release you mention some other factors, one of which is the restart of Vavenby, and you mention there were costs associated with that start-up. Was that material? And, if so, can you give us an idea of the magnitude there?

Don Kayne, President & Chief Executive Officer

Yeah, what we were talking about, referring to really, is total manufacturing costs, and the majority of that was related to the log cost side. In terms of conversion costs, clearly we have start-ups at both Vavenby, September 6th, and also Polar, so both of those, you know, during start-up clearly the costs are often a bit higher than they would typically one at on a regular basis, obviously. So there was some impact there for sure that would have caused them to be a bit higher.

Sean Steuart, TD Securities

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

Don Kayne, President & Chief Executive Officer

Okay. Thanks, Sean.

Operator

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

Paul Quinn, RBC Capital Markets

Yeah, thanks very much. Just a question on, ah, if you could give us a recap of sort of your major CapEx projects that are still ongoing right now.

Don Kayne, President & Chief Executive Officer

Sure. Maybe, Alistair, you can comment on that.

Alistair Cook, Senior Vice President, Wood Projects Operations

Paul, as Don mentioned, we just started up the Polar planer facility in August. The Vavenby Mill restart in September. We're currently just starting up our energy systems at both Plateau and Chetwynd here in October and then we're going into a planer project at PE Sawmill over Christmas and then a planer project in Grand Prairie for March of next year.

Paul Quinn, RBC Capital Markets

Okay. And I guess I had a question on, ah, you brought up multifamily starts and just do you get a rule of thumb as to lumber use in multi-family starts versus, you know, sort on average versus single-family starts?

Don Kayne, President & Chief Executive Officer

Not really. I mean clearly if there's a percentage it was probably in the neighbourhood of 40, 50 percent of the amount of product used in the multi-family versus a single-family, in terms of lumber and panel consumption, Paul. That's kind of, ah, probably a number that we would use.

Paul Quinn, RBC Capital Markets

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Okay. And, just lastly, hearing a lots of stories, and I guess you guys are too, but it doesn't sound like you've experienced it yet, on slowdown in China, and I'm hearing a lot of it around the low grade, not so much on the number-two-and-better. Have you noticed anything around that?

Don Kayne, President & Chief Executive Officer

Yeah, that would be somewhat accurate for sure. And I think part of that is from the fact that the Chinese are more and more interested and more focused on purchasing more of the higher grades now. And so, you know, and as a result of that I think that that has put some pressure on the low-grade markets. However, that's also why we are focused on some of the other, Middle East, ah, Middle East as well as South East Asian markets, including India, that hopefully will become a more of a, um, or be able to take an increasing share of that low-grade product mix from us.

Paul Quinn, RBC Capital Markets

Okay. So it will come back to you in low grade in terms of the reduced volumes as well as a spread in price?

Don Kayne, President & Chief Executive Officer

Perhaps. Although, you know, again, I mean we believe there are lots of opportunities for a low grade across Asia as well as the Middle East. So we will be, we're focused hard on that now. And also, again, we've got to be careful there a bit. I mean China is still real, real strong and there is still a lot of upside there and, you know, I think I mentioned earlier but is that in terms of the geography the country there are lots of additional areas that we're focused hard on going forward and will continue to in 2012. And there are large untapped opportunities as far as we are concerned.

Paul Quinn, RBC Capital Markets

Great, that's all I had. Thanks guys.

Don Kayne, President & Chief Executive Officer

Okay. Thanks, Paul.

Operator

Thank you. There are no further questions registered. We will now poll for questions from the media sector.

As a reminder, if you wish to ask a question, please press star one.

There are no further questions registered. I would now like to turn the meeting back to Mr. Kayne.

Don Kayne, President & Chief Executive Officer

All right. Well thank you very much operator and thanks everybody for joining our Q3 call and we look forward to talking with you at the end of quarter four. Thanks very much.

Operator

Thank you. The conference call has now concluded. Please disconnect your lines at this time. And we thank you for your participation.
