

CANFOR CORPORATION
Q4 - 2008 CONFERENCE CALL

COMPANY REPRESENTATIVES:

James Shepard – President and Chief Executive Officer
Thomas Sitar – Vice-President Finance and CFO

Operator:

Good morning, ladies and gentlemen. Welcome to the Canfor Corporation Fourth Quarter Results 2008 Conference Call. Please be advised that this call is being recorded and webcast live at www.canfor.com. The recording of the call and the transcript will be available on Canfor's website. During this call, Canfor's CEO and CFO will be referring to a slide presentation that is available in investor relation section of their website. Also this company would like to point out that this call will include forward looking statements, such as [Phonetic] refer to the press release for this associated risk of such statements. I would now like to turn the meeting over to Mr. James Shepard, President and Chief Executive Officer of Canfor Corporation. Please go ahead Mr. Shepard.

Jim Sheppard – Canfor Corporation President and CEO:

Thank you operator. Good morning and welcome to Canfor's Conference Call to discuss the company's Fourth Quarter Results for 2008. I am joined today by Thomas Sitar, Canfor's Vice-President of Finance and Chief Financial Officer, Don Kayne, Vice-President of Marketing and Sales and Mark Feldinger, Vice-President Manufacturing. I will give a brief overview of the quarter, and then Tom will speak to our financial results including providing some details on the significant unusual items in the quarter. I don't want to use this time to promote the state of the markets and the forest [Phonetic] products markets specifically. If you were listening to this conference call, you're all aware of the unprecedented low demand and low prices we're currently seen. Ours is not the only sector of the economy facing large challenges. Yesterday, we reported a net loss for the quarter of \$230 million or 160... 1 dollar and 61 cents per share. As you've noted from the news released, the Q4 results included a number of unusual items that had a net negative impact on the results. I will Tom expand on these in a moment. After removing these one time items, the adjusted net loss in the quarter was 44 white million dollars or 30 cents per share. With share represent a decline of \$40 million or 28 cents per share from a similarly adjusted net loss of 4 million dollars or 2 cents per share in the third quarter.

As I speak, nine of our lumber operations are completing a one-week curtailment and the week earlier, the six operations were also down for a week. Beginning next week, we are curtailing our radium operation as well as the third shift in Quesnel. We also curtailed all of our operations for two-week period over Christmas. Over the last year we indefinitely closed, four of our operations beginning with our Mackenzie sawmills followed by Chetwynd, Polar Board OSB and Tackama Plywood Plant. These are not decisions that we took lately, but they are in keeping with an overall strategy to be responsive to market demands. Do not build up inventories and to remain flexible during these challenging times.

We are committed to maintain a strong balance ship despite the turmoil that surrounds us. We're all positioned to take full advantage when the market recovers. But in the mean time, we are taking every measure necessary to protect our position. I wish I could be optimistic today and say that I see an end to this market downturn that we are experiencing. Unfortunately, I think that would be anything but true. The truth is of the US housing market dries our business and as long as housing starts remain at record lows in the United States, the forest industry will struggle. So doing [Phonetic] thing to be optimistic about when a company records and adjust the net loss of \$44 million you wouldn't think so. But our operating results year-over-year there a closer look.

In the past 18 months Canfor has been focused on cash conservation. We've done at the right way. We've cut where we needed to cut while improving productivity. Our total unit manufacturing costs are down 12% compared to the last quarter of 2007. We've driven down our conversion costs. We've lowered law in cost significantly as we've lowered our operating and over head cost. We've curtailed when we see the inventory is grow, so that we wouldn't have to sell at unsustainable prices. We are writing our own story and not waiting for the market to forces interaction. All industries are now be in touched by this weakened economy, but if you look at Canfor, we have shown our self to be strong by the way we had face this adversity. When everything around you is going soak,

you have two choices. Worry about what's going around you or concentrate on the things you can control. Canfor as focused on what we can do to preserve our strong position. For more details on our financial results, I would now like to turn the call with Tom Sitar. Tom.

Thomas Sitar - Canfor's Vice President Finance and CFO:

Thank you Jim. My comments this morning will focus on our financial results for the Forth Quarter of 2008, with special emphasis on those items that affect comparability with other quarters and those factors which contributed significantly to our results. I draw your attention to our Q4, over to a slide presentation which you will find on our web site in the investor relation section webcast tag. I will refer to it periodically. Also note that [Indiscernible] so I will be reference to all amount around it to the nearest million. As Jim mentioned, Canfor report a fourth quarter net loss of \$230 million that included number unusual item. That's compared to a net loss of \$94 million for the third quarter of 2008 and a loss \$237 million in the forth quarter of 2007.

On a Slide 4 of our presentations, list these items and I will detail them now. Please note that the amount I referred to are on after tax basis. First, an asset impairments charges of \$74 million or 42 cents per share, related principally to Canfor's Tackama plywood and PolarBoard OSB plants, as well as the further impairment of our holdings of asset back commercial paper. Second, a loss of \$52 million or 37 cents per share, due to the revaluation of our US dollar denominated debt. The end of period exchange rate went down by almost 13 cents from 94 cents to 81.7 cents. This is a positive from realize sales position but it has increase the notional repayment cost of our debts net of investment. Third, a \$50 million charge or 35 cents per share for the revaluation of our financial derivative, this expense relates to fall in oil and natural gas prices, as well as the weakening Canadian Dollar. We have a number of hedge positions related to those exposures that have seen mark to market losses. Forth, the restructuring charge of \$7 million or 5 cents per share related to our indefinitely idled operations. And finally a loss of \$3 million or 2 cents per share, relating to the new accounting standards which have impacted our log inventory evaluation. After taking count on these items, the forth quarter adjusted net loss is \$44 million or 30 cents per share. This represents the \$14 million decline from the third quarter and it directly related to weakness in both Lumber and Panel Markets.

Slide 5 of our presentation shows that continued fall in housing sites and market prices for SB at Lumber.

Now, turning to our operating performance, Slide 6 of our presentation, the company generated negative EBITDA of \$30 million, \$85 million of less than for the previous quarter. After taking account of inventory revaluation and restructuring cost EBITDA was breakeven down \$64 million from the third quarter.

Now looking at each of our business segment in turn, slide 7 for the Lumber segment. The Lumber segment had an EBITDA loss of \$24 million in the forth quarter of 2008 compared to EBITDA of \$15 in the previous quarter. Affecting comparability are restructuring severance enclosure cost, which were \$1 million higher in Q4 and an inventory revaluation of \$9 million related to the prior period. Principally, reflecting falling prices at the end of the quarter. When these items are adjusted out of EBITDA, there was a \$30 million quarter-over-quarter deterioration. This change was primary driven by lower average SPF and Southern Yellow Pine Lumber prices. Partially offset by record low Canadian dollar, and a positive adjustment to the Lumber export tax of the \$11 million. More specifically, the average price for the benchmark FPF 2 x 4, in Canadian dollar term, went from \$274 to \$230 per thousand board feet. Our log and conversion cost per unit of production, [Indiscernible] changed quarter-over-quarter.

Now turning to the Panel segment, slide 8. The panel segment had an EBITDA loss of \$11 million in Q4, compared to a breakeven result in the third quarter of 2008. Items affecting comparability included restructuring severance cost that were \$4 million higher in the fourth quarter. And the devaluation log inventory which was \$2 million expense in the current quarter compared to a \$3 million recovery in the prior quarter. When these items are adjusted out, there was a \$1 million reduction EBITDA versus the third quarter, reflecting steady prices in the Canadian dollar basis. As a reminder, by the end of the quarter, neither Tackama plywood or PolarBoard OSB were operating and currently our only producing facility is the piece value of B plant of which we own 50 percent. But as we speak that of facility is on a market related curtailment.

Now, turning to the pulp and paper segment, slide 9. The results reported for the pulp and paper segment includes Canfor-Taylor pulp mill combined with Canfor Pulp Limited Partnership. Fourth quarter EBITDA with \$9 million and was down 36 million compared to the third quarter, principally going to reduce shipment as a result of slightly falling demand, market curtailments, scheduled maintenance downtime and lower realized prices.

Results for Canfor Pulp Limited Partnership of which we own 52.2% were discussed in Canfor Pulp income funds, news release and conference call earlier this week. Capital standing in the fourth quarter was \$22 million, which was comprised of \$9 million for the solid wood business and \$13 million for Canfor Pulp. We are reviewing our 2009 capital spending plans carefully and depending on market condition plan that we may invest up to \$80 million in both replacement and improvement projects in our Lumber business, which will be partially funded by insurance proceeds.

At the end of the fourth quarter, Canfor have cash of \$362 million and unused funds of credit of \$413 million. This excludes cash held in asset back commercial paper that has been re-classified as long-term investment.

Now, debt repayments were made in the fourth quarter. In 2009, there are debt repayments occurring on March 1st and April 1st totaling 137 million US dollars. We will make these payments from our cash reserves. Our net debt to capitalization at the end of December was 15% on the consolidated basis and 7% for Canfor excluding CTLP. At the end of Q4, we had in place almost [Indiscernible] million of US dollars foreign exchange call contracts that are designed to protect us against strengthening a Canadian dollar. These contracts extend to 2009 and provide protection for more than half of our cash flow from the solid wood business. But at the current exchange rate, the top side of these callers is below the spot range and the spot rate, and so we would be limited in the benefit of any weakening in the Canadian dollar, with the unpleasant volatility in the Canadian dollar impossible to estimate the final impact of these options. And Jim, with that, I would like to turn call back over to you.

Jim Sheppard – Canfor Corporation President and CEO:

Thanks Tom. Looking forward, I fully expect conditions to be even more challenging through 2009 for all of our products. However, we have a strong balance sheet and we intend to maintain it by making the difficult decisions when necessary and by monitoring the market week to week. We have a one factory philosophy that allows us to be as flexible and as responsive as we need to be. From any other sectors in the economy have only begun to wake up to the new reality this global market downturn. Canfor has been adjusting the way we approached the business for quite sometime. In the last year Canfor defined themselves as the company with the ability to respond to external forces. The capacity to adapt to changing circumstances is engrained in everything we do. None making light of the loss we announced yesterday. It is a significant amount. Despite that loss, I am optimistic about the future prospects for company. We are well positioned with strong cash reserves and a strong customer base to emerge in this downturn as a dominant player in our sector. There will be an opportunity when the markets rebound. In a mean time, Canfor is focus on savings for the future, while still meeting the needs of our key customers.

What the near future holds for the forest industry remains uncertain. But by further focusing our efforts on that which we can control, I believe Canfor will come out of this downturn and in an even stronger position when it started. Operator I now like to ask, shall we take questions from the telephone lines?

Operator:

Thank you. Oh, now, take questions from the telephone line. We will first take questions from the financial analyst followed by the media. Do you have a question please press “* 1” on your telephone keypad. If you’re using your speaker phone please lift your receiver and then press “* 1.” If in anytime you wish to cancel your question, please press the pound key. Please press “* 1,” if you have question, there will be a brief pause for participants to register for question. Thank you for your patience. Our first question is from Gerald [Indiscernible] [00:15:48] of Raymond James. Please go ahead.

Q:

Thanks, and good morning. Question on the cost, perhaps you could give us a little bit more color on how you achieve those kinds of reductions. And secondly, give us an idea of how durable those cost reductions are, meaning, how much are related to lower slumbered [Phonetic] rates which will reverse when price recover and how much your operation in lower cost permanently?

Jim Sheppard – Canfor Corporation President and CEO:

Well, the cost came down right across the company, but the area that with the most impact was certainly in the manufacturing area. And I'll turn that over to Mark to give you some background to this, how intense of each cost reduction that we...

Mark Feldinger:

Good morning, Gerald [Phonetic]. When I take to look at our cost position, as Jim had mentioned, we have made structural changes and productivity changes across the company. So operationally in our over head areas, we have sustainable reduce cost. We have asked and targeted to cost reductions in our contracted workforce. And we continue to find ways to keep our log cost that have lower levels. So really I think that would be a summary of where we have focused and have had good support from the people who work for us and with us.

Q:

Thank a lot. On your BC interior or BC operations, what percent would be Beetle kill going through in those, right now?

Jim Sheppard – Canfor Corporation President and CEO:

We're approximately 80% of the volume going through our mills today as from Mountain Pine Beetle impacted stands. Not all of those trees obviously, are all attached by Mountain Pine Beetle.

Q:

Okay. And lastly, this one strategy with respect to your panel segment, you are down to really half amount to JV. What about a long term plans on the panel side for Canfor Jim?

Mr. James Shepard: Well, at this point, we have Tackama curtailed and we also have the Polar Board Curtail. Then at this point there, indefinitely closed, and we are going to be measuring the market and see how that performs. So at this point those operations are in hold.

Q:

Okay. Thanks, I'll cut it over.

Operator:

Thank you. Our next question is from John Culler [phonetic] of [Indiscernible]. Please go ahead.

Q:

Good morning, gentlemen. I have two questions, if I could. The first is in Lumber side, if you could give an idea of how you are operating as a percent of capacity with curtailments. And then any assets that you might have for sale or that already used with the plants for those might be? Thank you.

Jim Sheppard – Canfor Corporation President and CEO:

Well, I think the broad brush number is the capacity has approaches 5 billion and at the moment we are operating at about 70% of that.

Q:

Okay, great. Thank you. And then on the any assets that you have, that you might be looking that I've ask or --

Jim Sheppard – Canfor Corporation President and CEO:

We're not looking specifically dead [Indiscernible], but we have to two saw mills that are indefinite shut and that's

Chetwynd and Mackenzie, but we don't have any specific [Indiscernible].

Q:

Okay, great. Thank you very much.

Operator:

Thank you. Our next question is Paul Clin [phonetic] [00:19:29] of RBC Capital Markets. Please go ahead.

Q:

Yeah, thanks. Good morning. This is question on the Lumber Markets offshore and sort of you have a pretty good reed in North America, but what you seen offshore especially for Jagrade [phonetic] prizes and volumes.

Jim Sheppard – Canfor Corporation President and CEO:

Tom why don't you take that?

Thomas Sitar - Canfor's Vice President Finance and CFO:

Yeah, sure. And then I call on that one, I mean just personal overall offshore actually in Q4 oversees shipments [Indiscernible] actually up slightly over Q3, but/and J-grade was also very stable Q4 through Q3, specifically into Japan. Recently, though we've seen some weakening there for sure in the Japan demand. However, we do expect with some of the other options there that we are working on and we'll be able to maintain the current levels.

Q:

Okay. And just back on Gerald's cost question that the 12% Lumber manufacturing cost reduction year-over-year, if you could break that out into conversion cost versus [Indiscernible]. Is that like a 50-50 or is that a --

Jim Sheppard – Canfor Corporation President and CEO:

No. We're not going to go specifically into that, but I can tell you [Indiscernible] is not a large portion of that. [Indiscernible] is actually a small portion of that change. It's principally both in logging over head and manufacturing cost across the board, but it's not [Indiscernible] in any kind of a large or majority way.

Q:

But that was more of an 80/20?

Jim Sheppard – Canfor Corporation President and CEO:

I will try it.

Q:

Okay. What about this one? The export tax refund, I'm sure why you didn't classify that as an one time item and then if you could split that 10.8 million between Q4 '07 Q1 '08, so we can adjust to that?

Jim Sheppard – Canfor Corporation President and CEO:

Well, I guess the reported the two quarter does not enough split between the quarter, right don't have split that way. If you have the two quarters back-to-back before the refund applies. And yes, you could argue whether it should have been identify the issue with that this is an adjustment to that SLA rate that could happen again. And so it's really an adjustment to the rate. You know, in terms of volume in those quarters in terms of shipment that it was roughly equal. So if you wanted to just do it split, probably 50-50. But you need two quarters taking back-to-back before the refund gets in. But it's really an adjustment over rate. Right, [Indiscernible].

Q:

Okay. Thank you very much. That's what going for.

Jim Sheppard – Canfor Corporation President and CEO:

Thank you.

Operator:

Thank you. There are no questions registered at this time. I'd like to turn the meeting back over to Mr. Shepard.

Jim Sheppard – Canfor Corporation President and CEO:

Are there are any question from the media?

Operator:

There are no questions from the media registered at this time.

Jim Sheppard – Canfor Corporation President and CEO:

Okay. Well, then since there are no further questions, I'd like to thank everyone participating the call this morning and for your interest in Canfor. I look forward to talk to you all again next quarter. Bye, bye, now.

Operator:

Thank you. The conference has now ended. Please disconnect the line. Thank you for your participation.