CANFOR CORPORATION
Q1 - 2008 CONFERENCE CALL
May 5, 2008

COMPANY REPRESENTATIVES:

James F. Shepard, President, Chief Executive Officer, Director
Thomas Sitar, Chief Financial Officer, Vice President - Finance
Mark A. Feldinger, Vice President - Manufacturing
Donald B. Kayne, Vice President - Marketing and Sales

Operator

Good morning, ladies and gentlemen. Welcome to the Canfor Corporation first quarter results 2008 conference call. Please be advised that this call is being recorded and webcast live at www.canfor.com. A recording of the call and a transcript will be available on Canfor's 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 Shepherd, President and Chief Executive Officer of Canfor Corporation. Please go ahead, Mr. Shepherd.

James Shepard - President, Chief Executive Officer

Thank you operator. Good morning and welcome to Canfor's conference call, to discuss the Company's first quarter results for 2008. With me today is Tom Sitar Canfor's Vice President Finance and CFO, Mark Feldinger Vice President Manufacturing and Don Kayne Vice President of Marketing and Sales. At our annual general meeting on Friday Canfor reported a net loss for the quarter of $85.4 million or $0.60 per share.

There are number of adjustments for comparability quarter-over-quarter that Tom Sitar was speak to later in the call. This compares to a net loss of $237 million or $1.66 per share in the fourth quarter of 2007 and a net loss of $42.7 million or $0.30 a share in the first quarter of 2007. I will give a brief overview of the quarter and then have Tom, speak to our financial results. We will then take questions from analysts, followed by the media.

Core market conditions continued to our wood products business with U.S. US housing starts maintaining their downward trend. The Canadian dollar remained strong compared to the U.S. dollar and we continued to pay the 15% export tax under the Softwood Lumber Agreement. They had some contest to the extent of the poor market conditions we currently faced. U.S. reports show that there was over 234,000 property foreclosure filings in the month of March alone, up 5% from February and 57% from the year before.

This foreclosure activity continues to put upward pressure on the inventory of existing and new homes which currently stands at approximately 10 months of supply. This compares to a four to five month supply than normal market conditions. This over supply of course dampens the appetite for new home construction. In response to this market challenge, we continue to make progress on reducing controllable cost in the first quarter.

With unit manufacturing costs at our Western Canadian operations, improving 6% and 12% respectively, relative to the fourth and first quarters of 2007. As the prospect for improved market conditions in the near term is unlikely we've taken the necessary steps in order to align our production with market demand. In April we announced we would move to reduce workweeks at a number of our mills further curtailing production by 600 million board feet on an annualized basis.

To help mitigate the impact this would have on our employees, we have applied to the Federal Government to take advantage of wood chip program offered by the department of human resources and social development that will provide salary supplements under the Employment Insurance program. All of the decisions concerning curtailments and indefinite closures are in keeping with our strategy, to align our production output to master the demands of the marketplace while still meeting the needs of our key strategic customers.

We are continually reviewing our production levels to ensure that they reflect the market realities. Lumber prices continue to fall in the first quarter with the average price for SPF 2x4 No.2 & Better declining a further US$25 per 1000 or 11% from the fourth quarter of 2007 and compared to the first quarter of 2007 it was down US$48 or $90 in Canadian realized prices. Prices for Southern Yellow Pine lumber fared a little better recording slight gains over both comparative periods.

Offshore markets were relatively flat during the quarter with increased sales volumes to South East Asia and the Middle East largely offsetting lower shipments to Japan and Europe. OSB markets also suffered as a result of the poor housing market and the strong Canadian dollar. OSB prices decreased throughout the quarter to the end of US $142 per 1000 square feet down 14% from the previous quarter. Canadian softwood plywood prices were also down with an average price of $347 per 1000 square feet on a 3 to 8 inch basis down 7% from the previous quarter.

Now I would like to turn the call over to Tom Sitar who will provide further details on our financial results. Tom?

Thomas Sitar - Chief Financial Officer, Vice President - Finance

Thanks Jim. My comments this morning will focus on the financial results for the first quarter of 2008. Canfor recorded a first quarter EBITDA loss of $74 million, an improvement of $3.5 million compared to the fourth quarter 2007 but down $64 million compared to the first quarter of 2007. The Company's net lose for the first quarter was $85.4 million or $0.60 per share compared to a net loss of $237 million in the fourth quarter at 2007 and you will recall that this included $189 million asset impairment charge.

The significant items affecting comparability of the net income results are listed on page four of our new release. They include an after-tax log inventory devaluation of $29 million as a result of a new accounting deployment and more on this later. An after-tax foreign exchange translation loss on long-term debt, net of investments was $10.1 million and $9.1 million resulting from a reduction in British Columbia corporate income tax rates. These together with other smaller adjustments contributed to a decrease in a net loss of $0.18 per share. Excluding these items Canfor's net loss would have been $0.42 per share. This compares with a similarly adjusted fourth quarter of 2007, net loss of $0.49 per share.

Concerning the log inventory devaluations, this resulted from our adoption of CICA's new inventory accounting standard Section 3031, which required all inventories including log to be measured at the low cost or net realizable value. Previously we had valued logs at the higher of net realizable values and replacement cost if lower than average cost.

In the first quarter we recorded a log inventory devaluation of $42 million or $29 million, $0.20 per share on an after-tax basis. So, devaluation reflected lower recovery-to-log net realizable values, arising principally from weaker lumber markets or lumber prices and seasonally high log inventories at the end of the first quarter, usually ahead of spring break-up. To help put this amount in context if we had applied the new standard retroactively the log devaluation would have been around $41 million in the first quarter of 2007 and $2 million in the fourth quarter of 2007.

Compared to the same quarter of 2007, we significantly reduced our pre-break-up log inventory volumes and together with lower price logs. These factors offset the impact of fall in prices and the much stronger Canadian dollar on the recovery-to-log net realizable values. Some questions us on the validity of showing the log devaluation as an adjustment. We are showing it separately performance of disclosure and to help the quarter-to-quarter comparability.

Capital spending was $19.3 million in the first quarter which was comprised of $10 million for Canfor and $9.3 million for Canfor Pulp Limited Partnership. We are currently forecasting an additional $35 million in capital expenditures for the reminder of the year on a solid wood side of the business, mainly on replacements and small, low-risk, high return project. Consolidated total capital spending including CPLP for 2008 is estimated to be $85 million.

Debt repayments of $14.8 million or US $15 million were made during the quarter and represents the only scheduled debt repayments during 2008. At the end of the first quarter, Canfor on a consolidated basis had cash in temporary investments of $241.5 million. This excludes cash held in asset-backed commercial paper that has be reclassified as a long-term investment. At quarter end our net debt to total capitalization was at 15%.

Now, to our business segment beginning with lumber; the lumber segment reported an EBITDA loss of $93 million in the first quarter of 2008, compared to an EBITDA loss of $73.9 million in the previous quarter and $36.3 a year ago. The higher loss for the first quarter of ’08 reflected lower average prices and $38 million log inventory devaluation partly offsets by cost improvements and the higher value sales mix and lower restructuring cost.

Turning to panels; the panel segment had an EBITDA loss of $22.5 million this quarter, which was $6.3 million better than the four quarter of ’07. Negatively, impacting results were lower realized Canadian prices for OSB, which falls an additional 14% compared to the previous quarter and also lower plywood prices where the net realization declined more than benchmark prices.

The current quarter included $4 million log inventory devaluation. Restructuring cost in the first quarter were $3 million mostly related to the business closure of PolarBoard OSB mill compared to $14 million of cost associated with the closure of our panel and fibre mill in the fourth quarter. After adjusting for these restructuring cost the EBITDA loss was $5 million higher in first quarter than fourth quarter of last year reflecting the weaker prices.

Turning to the pulp and paper segment I would point out that detailed results for Canfor Pulp Limited Partnership of which we own 50.2% was provided in Canfor Pulp Income fund news release and conference call week so I will only make limited comments. Our Canfor's results reported for the pulp and paper segment include our Taylor pulp mill combined with the results of Canfor Pulp Limited Partnership.

First quarter EBITDA was $45.1 million up $17.4 from the previous quarter. The improvements reflected a higher average pulp and paper prices and the slightly weaker Canadian dollar partly offsets by higher input costs. Results for the quarter include an EBITDA to benefit the business interruption insurance receivable $11.4 million due to a fire at the Prince George Pulp Mill's chip cleaning and in-feed system in January.

Also included in our results but not in EBITDA is a non-operating gain of $5 million from insurance coverage related to property damage. As stated by Canfor Pulp Limited Partnership that fire should not impact distributable cash and Jim will that I will turn the call back to you.

James Shepard - President, Chief Executive Officer

Thanks Tom. On a positive note the intensity of this downturn has made us focus on the management of all of our controllables. Internal progress reports show that we are improving our performance in all of our operations. We continue to operate our mills to reflect the realities of the current marketplace. These conditions dictate that we be prudent with our cash, aggressively manage our costs and to the best of our ability match production with market demand while meeting the needs of our key strategic customers.

In closing we will continue to assess the market and will not hesitate to take further steps to restructure our production should conditions require us to do so. By taking this deliberate approach we feel that Canfor will be better positioned to take advantage of opportunities when conditions improve. With that operator I will turn it over to you for questions from analysts and then the media.

Question and Answer Session

Operator

Thank you. We will now take questions from the telephone line. We will first take questions from the financial analysts follow by the media. (Operator Instructions) The first question is from Don Roberts of CIBC World Markets. Please go ahead.

Don Roberts – CIBC World Markets Equity Research

Thanks very much, Jim. Actually two questions; first when we are looking at the, pretty difficult times and we have got the cash negative position, could you give us a little color though on sort of really what the closure costs are out there and if we are looking at permanent closures and I'm thinking here, on the one hand we have got this sort of discounted cash losses overtime and whether it's greater or less that those closure costs seems to be one of the key question. Is there -- for example closure costs are they seven months, 10 months of the current losses we are looking at? So, any kind of metrics on how you think about that sort of closure decision would be useful?

James Shepard - President, Chief Executive Officer

Okay, I think the only permanent closure at this point is panel from fibre, okay. We have an indefinite close at Chetwynd and at PolarBoard coming up on the first week of June and…

Don Robert - CIBC World Markets Equity Research

When we are looking at -- so, I guess one of the questions that given that we have seen temporary -- just a temporary reductions. The, to some extent that is its going to be a whole lot easier for you and then all the other players to sort of respond to supply demand when, the market kick back, but then on the other hand that's also going to delay response or sort of the price increases down the road. So I guess -- is there anything so, you could help us -- the one these -- on these closure cost and what kind of magnitude if we were to go permanent0 this is clearly right now looks like you feel that those are greater then it would be, the current sort off cash losses verses stating with operating.

James Shepard - President, Chief Executive Officer

Well I'll tell you what; I will give you the financial metrics over to Tom here in a minute, but just going back to your comment about this temporary closures where we the quickly come back up. That's now really the case, in the case of Chetwynd the personnel there have all been pretty much let go. Some of the key people are back in the heart of our operation, but quite frankly to start that mill back right up we just don't pull the lever. Especially, in the unusual economics that we've got right now where we've got a strong oil and gas sector and mining sector for that matter where all those technical people have been absorbed, so it won't be just a matter of pulling the switch and getting that mill back up for us or for anybody else in the industry. So that part I would. Now, there is no doubt about it the permanent closures is what the industry is going to be looking for going down the road to get some stability into the pricing and I'll leave it to you guys to speculate on that. I think you can see the economics are pretty obviously that's -- that's property was in the currency before we got through this strong, but its not a case of us just been able to, in our fairness we will go from two or four day week versus in a five day week, yes that is something we could pull a switch tomorrow and get back up, but that's a different to situation from these temporary shutdowns. Okay.

Don Robert - CIBC World Markets Equity Research

Okay.

James Shepard - President, Chief Executive Officer

But I let Tom responsible little bit on the financial commitments.

Thomas Sitar - Chief Financial Officer, Vice President - Finance

It hard to go to specific it various mill by mill and locations and so there number that I will give you as such to say how long it takes really does vary, but no question in my mind, it's the volume that comes out of the market that influences it. It not just - just the statement whether it is a permanent or a - short-term closure, and there really have to be a long-term intent to be out of that particular location to - not deal with the tenure and those are decisions that obviously take a longer time to make

Don Roberts - CIBC World Markets Equity Research

So, Tom, if I would have -- granted it is the size of each of the mills and so forth, but just in terms of how we think about it? Could we sort of -- fair to say that again its primarily the severance expenses which have the largest component?

Thomas Sitar - Chief Financial Officer, Vice President - Finance

They are the – they are one of the largest, but there are other – there are other cost related to it, but no question severance is the key part of that, but that isn't the sole decision maker

Don Roberts - CIBC World Markets Equity Research

Yeah - yeah. Okay, okay maybe at a different time I'll explore that more. Just one other quick question before I jump off and get the back to queue. You guys have got an advantage with your U.S. operations you have got a sort of the window one that Southern supply situation. As you look forward here and eventually you will get a cyclical rebound and it may well be at the same time that we see decreases in supply to the BC in June due to the beetle problem, what kind of supply response do you sort of foresee in your operations in the U.S South is it meaningful or is that more sort of - or we already there?

James Shepard - President, Chief Executive Officer

I'm sorry. What you mean by the supply response.

Don Roberts - CIBC World Markets Equity Research

The ability to increase your lumber production capacity overtime. Is the wood down there in n your wood basket and U.S. South to get a meaningful increase and output in the Southern operations?

James Shepard - President, Chief Executive Officer

Well basically, our investment in New South is basically, yes to diversify our dependency on SPF production in Canada and to get, to get to me other side of the SLA for example, the 50% added cost, but we have got our production down in the U.S. also constrained at the moment. We have gone from a 600 million board feet down to about 400 million just on the basis of, the American marketplace, so it's taken its constraints as well.

Don Roberts - CIBC World Markets Equity Research

But, if we would have say go by the market comes back and we have got our existing capacity in place. We can say that ramp up our number of ships. That will give us some supply response?

James Shepard - President, Chief Executive Officer

Yes.

Don Roberts - CIBC World Markets Equity Research

Guess what I'm trying to get a handle on, is there the sufficient wood basket down there for your folk's perspective to increase beyond what that current rate of capacity is?

James Shepard - President, Chief Executive Officer

Absolutely, I mean we are down 200 million feet down there in response to the market. We can bring that backup and then some quite frankly, absolutely. We are positioning ourselves to be able to take advantage of that wood basket down there and quite frankly the Southeast of the United States is the one part of the basket in the world right now that has been growing over the past number of decades and its right near one of our biggest markets. So that will -- the economics of that whole equation down there is very favorable it is going forward.

Don Roberts - CIBC World Markets Equity Research

I mean I'll turn back to the queue, maybe just revisit – revisit that in a second. I'll give other folks a chance. Thank you.

Operator

Thank you, the next question is from Paul Quinn of RBC Capital Markets. Please go ahead.

Paul Quinn - RBC Capital Markets

Hi thanks and good morning. Just following up on Don's Southern Yellow Pine questions. Looks like 2/4 prices were very strong but wides are very weak, can you just give us a little bit of description of Canfor's ability in the U.S. South to be able to move from a wide width profile to a 2/4 profile. Do you have that flexibility?

James Shepard - President, Chief Executive Officer

Don Kayne will answer that

Donald B. Kayne, Vice President - Marketing and Sales

Yeah sure Paul, it's good question I mean absolutely and we've focused heavily on that and we have a lot of flexibility there because we and that's exactly but we have down over last quarter and but as we just as we have completed doing that as you may also known is that 2/10 going back go or the wide widths have going back to fairly significant premium against 2/4 and so, like everybody else, we are starting to address for that as well we have compared to maybe to some degree our SPF mills, we have quite a bit more flexibility in the Southern yellow prices sides, we keep less inventory so we are able to shift our logs -- log decks our little bit more quicker. So yes we have been doing that will continued to adjust as a market conditions dictate.

Paul Quinn - RBC Capital

Just a question on that work share program you mentioned. What's the duration on that program and is there potential for an extension?

Donald B. Kayne, Vice President - Marketing and Sales

That the program is design to run for a six-month period and there is the ability to extend that up to 39 weeks I believe is the -- is the current limitation on that.

Paul Quinn - RBC Capital

In terms of the -- sort of the decisions around Fort Nelson on that Tackama plywood side, what's the -- a lots of speculation out there in the market right now, on - on what kind of concessions you have got on the government and the union side. Can you address that?

Donald B. Kayne, Vice President - Marketing and Sales

No, not specifically.

Paul Quinn - RBC Capital

Okay. In terms of lumber costs going forward because of the – sort of the increased downtime you are taking, do you - do you expect those cost up or you guys are making some attraction in reducing costs that they should be flat at this point?

Donald B. Kayne, Vice President - Marketing and Sales

There is no question when one takes volume out of the equation, your fixed costs become a higher percentage of the overall cost base. That being said we still maintain out targets to reduce our cost. So that's just another optically for us to overcome.

Paul Quinn - RBC Capital

Okay. And last question, an easy one. Describe at what's happening at Taylor its looks - its looks to be mildly EBITDA positive do you see that running that mill long-term? Or is that a mill on the bubble?

Donald B. Kayne, Vice President - Marketing and Sales

Paul we would never describe that any of our operation has been on a bubble. It is not a core asset as such but there are decisions that have been made with respect to Taylor and its operating low and that no decision has been made.

Paul Quinn - RBC Capital

Yes, sorry I meant non-core not bubble. Sorry of that. Thanks.

Operator

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

James Shepard - President, Chief Executive Officer

Hi, thank you. I think maybe we'll open it up to the media's if they have any questions and if there is operator?

Operator

Yes. (Operator Instructions). We do have Mr. Don Roberts online again with a question from CIBC World Market. Please go ahead.

Don Roberts – CIBC World Market

Following-up again on that U.S. wood supply you will its - there is no questions I understand you have got that ability to increase to ships down there. I guess the question I had is that if overall in the wood basket. If we see prices move up a lot. Is there opportunity for more mills to come in more capacity or are we supply constrained on the fiber basket. I know you can do better with what's you got now but it's expansion I thinking of you and other folks, just your perspective on that?

James Shepard - President, Chief Executive Officer

Are you thinking of you mean possibilities mill acquisitions is that what your think off?

Don Roberts – CIBC World Market

No, no just new Greenfields other folks coming in and yourself or other folks in putting in new capacity. Is there the fiber out there to support that?

James Shepard - President, Chief Executive Officer

There is some, there is some of that. It depends on how much, we are looking for that problem

Don Roberts – CIBC World Market

Yes, shorter in that right now, okay. Getting back on the Taylor thing that Paul had mentioned, my understanding and correct me if I am wrong that the mechanical pulping mills have more difficultly dealing with the BeneChill fiber than those your craft mills? If you had a one am I correct, and two is it a meaning problem in terms of the outlook for that mill?

James Shepard - President, Chief Executive Officer

Our - our Taylor mill is fed by a combination of softwood chips, which tend to be a high percentage of spruce as well as deciduous species. So that is - that's not an issue for us in Taylor.

Don Roberts – CIBC World Market

Okay, good. Okay. Thanks very much.

Operator

Thank you. The next question is from Brenda Bo of Canadian Press. Please go ahead.

Brenda Bo - Canadian Press

Hi, there. I just wanted to ask about you spoke earlier about permanent closures and there was just one so far and you were saying if the storm gets worse that there - there might be more closures, do you think those will be permanent ones or temporary? If you could you can just expand on that?

James Shepard - President, Chief Executive Officer

Rally basically what we're talking about here is we would adjust our production to match the market demand and then specifically, how we would do that, whether we would change shifting, change worked weeks or do a temporary closure or permanent closure those were the kinds of decisions that we would need to be made in the future depending on what the market reality was. The point we are making is that we are not waiting to look what everybody else is doing. We are working deliberately to make sure that we are making the decisions that are in the best interest of our shareholders.

Brenda Bo - Canadian Press

Are there any of those decisions I mean could you talking to - how things are still getting worse or they any of those just around the corner, any other new decisions on closure?

James Shepard - President, Chief Executive Officer

No, at this time what we right at this point, we are running at the level. We want to be running at for the market reality we are facing today and that's our point. As that we were continue to be responsive to the market as it is. So, that the moment now we are not on the verge of any major decision at this point one way or the other.

Brenda Bo - Canadian Press

Okay. Thanks.

Operator

Thank you there are no further questions registered from the media at this time. I would like to turn the meeting back over to Mr. Shepard.

James Shepard - President and Chief Executive Officer:

Okay. Well, since is there are no further question I would like thank everybody for participating this call this morning and for you showing your are interested in Canfor. It is appreciated and I look forward to talking to you again next quarter and hopefully we will see a little better market to talk about at that time.

Operator

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