CANFOR CORPORATION
Q3 - 2008 CONFERENCE CALL

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

Jim Shepard – President and CEO:

Good morning and welcome to Canfor's conference call to discuss the company's third quarter results for 2008. During this call we will be referring to a slide presentation that is available in the investor relation section of our website – canfor.com. I will pause a moment for those of you who need to call up the site on your screen. I am joined today by Tom Sitar, Canfor's Vice President of Finance, and Chief Financial Officer. I will give a brief overview of the quarter and then Tom will speak to our financial results, including providing some detail on the significant, unusual items in the quarter. Referring to our website on slide 3, yesterday Canfor had a net loss for the quarter of $94.2 million or $0.66 a share. As you were noted from the press release, the Q3 results included a number of unusual items, that had a negative impact on the results, and Tom will expand on these in a moment. After removing this one time items, the adjusted net loss from the quarter was $3.5 million or $0.20 per share, which represented an improvement of $17.3 million or $0.13 per share from a similarly adjusted net loss of $20.8 million or $0.15 per share in the second quarter. The improved results achieved in very difficult conditions reflected the following: A continued reduction in operating cost despite additional curtailments taken in response to very weak demand. Higher market and OSB prices resulting from tighter supply rather than increased demand. A $0.30 weakening of the Canadian dollar quarter to quarter and no scheduled pulp maintenance outages in Q3.

I continue to be encouraged by the progress being made in the reduction of our operating cost. Unit cash manufacturing cost at our Western Canadian operations were down 4% compared to the second quarter of 2008 and down 13% compared to the third quarter of 2007. Year to date, our unit cash manufacturing cost are down 13% despite reducing more than $700 million board feet of production. As all of you are aware, these are certainly very challenging times for our industry, with the severe down turn of the U.S. housing market, and the current turmoil in global financial and credit markets.

For most of the quarter, demand remained weak but with product in tighter supply SPF prices moved upwards temporarily through July and August. In September however, amid much upheaval and financial and credit markets, in heightened concerns about the U.S. economy, lumber prices quickly retreated. Demand has then stride up and prices have plummeted as a result. Figures released this month show housing starts down 32% compared to this time last year, when levels were already very low. I fully expect new and existing home inventory, coupled with extremely tight credit markets would be a continued drag in the months ahead. It is our expectation that weak demand conditions will exist for most, if not all in 2009.

The panels market was mixed in the quarter with OSB prices moving higher, but plywood prices remaining weak. Canfor's exposure to panels has diminished significantly owing to the loss of the North Central Plywood Plant, and the indefinite closure of our PolarBoard OSB operation in the second quarter.

In October we made the difficult decision to indefinitely close the Tackama plywood plant in Fort Nelson. As a result of this indefinite closure, we will not be producing any plywood for the near future. As we have said before, all of the decisions concerning curtailments and indefinite closures are in keeping our strategy to align our production output to match the demands of the market place, while still meeting the needs of our highly valued strategic customers.

We are continually reviewing our production levels to ensure that they reflect market realities, pulp markets weakened in the third quarter while the average NBSK pulp list prices were unchanged. Average transaction prices came off as the quarter progressed. Nonetheless, pulp business operating results improved in Q3 over those of Q2, due to the positive impact of the weaker Canadian dollar and because Q2 included several scheduled maintenance outages.

For more details of our financial results, I would now like to turn the call over to Tom Sitar.

Tom Sitar – Vice President Finance and Chief Financial Officer:

Thank you, Jim. My comments this morning will focus on our financial results for the third quarter of 2008, with special emphasis on those items that affects comparability with other quarters, and those factors, which contributed significantly to our results.

I would draw your attention to our third quarter slide presentation which you will find on the website. As Jim mentioned, Canfor recorded a third quarter net loss of $94.2 million that included a number of unusual item, this compared to net income of $64.2 million for the second quarter of 2008, which had also included a number of unusual items, most of them positive.

On slide 4 of our presentation will list this item, and I will detail them now. Please note that the amount I have referred to are not for tax basis. First, an asset impairment charge of $56.9 million or $0.40 per share related to Canfor's investment in Howe Sound Pulp and Paper, and more specifically the Coastal Fibre Limited partnership that supplies Howe Sound with much of its fiber. Discharge reflect the difficult conditions, we and other operators faced on (indiscernible) for pulp, paper and fiber.

Second, the $21.4 million or $0.15 per share expense due to the re-evaluation of our financial derivatives. This relates to the falling oil and natural gas prices as well as the weakening of the Canadian dollar, and this more than reversed second quarter gain. We have a number of hedged positions related to those exposures that had marked the market losses. Year to date though our net loss from the derivatives is 4.2 million.

Third, a loss of 11.3 million or $0.80 per share due to the devaluation of our U.S. dollar denominated debts. The weakening over the Canadian dollar in the third quarter had increased the notional (ph) repayment cost of our debts.

Fourth, restructuring charges of $3.6 million or $0.30 per share related to indefinitely idled operation, and finally a small gain of $2.5 million related to the recovery of a previous lag devaluation. After taking accounts of these unusual items, the third quarter adjusted net loss is 3.5 million or $0.20 per share, this represents a significant improvement from an adjusted loss of $20.8 million in the second quarter.

Slide 5 of our presentation, shows the history and positive trend of our quarterly adjusted net income results, turning to our operating performance which is on slide 6, the company generated EBITDA of 55 million, which is 10 million less than the previous quarter, but after taking of significant inventory devaluation and restructuring cost, EBITDA with 64 million up 56 million from Q2.

Now, looking at each of our business segments in turn, I am on slide 7, the lumber segment has EBITDA of 15 million in the third quarter of 2008, compared to EBITDA of 46 in the previous quarter, affecting comparability, restructuring, severance, and closure cost, which were 8 million higher in Q2 due to the indefinite closure of Mackenzie sawmill in June. Second quarter EBITDA also included $70 million recovery of inventory devaluation compared to a 6.6 million expense in the current quarter. The latter reflected following prices at the end of the quarter.

When these items are adjusted out of EBITDA, there was a $38 million quarter over quarter improvement. This improvement was primarily driven by higher average SPF lumber prices, a weaker Canadian dollar, and lower delivered log cost. Conversion cost per unit of production were little changed, as we continue to exercise, price control over cost despite an additional 133 million board feet of curtailment.

Turning to the panel segment, which is on slide 8 – the panel segment EBITDA was essentially break even in Q3 compared to an EBITDA loss of 7 million in the second quarter. Items affecting comparability including the restructuring severance and closure cost which were 20 million lower in the third quarter and recoveries of previous log inventory write down which were 15 million lower in the third quarter. When these items are adjusted out, of EBITDA there was $2 million EBITDA improvement versus the second quarter. As a positive effect of a weaker Canadian dollar, higher OSB prices and lower log cost more than offset higher wax and resin cost, and weak plywood prices.

I now turn to the pulp segment which is on slide 9, the third quarter results reported for pulp and paper include Canfor's sale of pulp mill combined with Canfor pulp limited partnership.

Third quarter EBITDA was 45 million, up 18 million compared to the second quarter, principally owing to the cost associated with annual maintenance shut down taken in the second quarter. Sales realization were also positively impacted by the weaker Canadian dollar. Results for Canfor pulp limited partnership, of which we own 50.2% was discussed in the Canfor pulp income funds news release, and conference call earlier this week.

Capital spending in the third quarter was 22.2 million, which was comprised of $10 million for the solid wood business, and 12 million dollars for Canfor pulp. And we expect to spend approximately 12 million in the fourth quarter on the solid wood side of the business.

At the end of the third quarter, Canfor had cash and temporary investments of 334 million on a consolidated basis, and this excludes cash held in asset-backed commercial paper that has been reclassified as a long-term investment. No debt repayments were made in the quarter and none are due for the remainder of 2008 and net debts to capitalization ratio at the end of September was 10%. At the end of Q3, Canfor had in placed $500 dollars of foreign exchange collar (ph) contract to protect against the Canadian dollar strengthening beyond $0.98 to the U.S. dollar. These contract extends to December of 2009 and provide protection for more than half of our monthly cash flow for the solid wood business.

At the current exchange rate the top side of the collar is below the spot rate and so we will be limited in the benefit of the weaker Canadian dollar. But with the unprecedented volatility in the Canadian dollar rate it is impossible to estimate the final impact of these collars. Jim with that I will turn the call back to you.

Jim Shepard – President and CEO:

Thanks Tom, as Tom pointed out we are making good progress and those items within our control, and our proactive efforts to reduce production has limit our exposure to those things that we cannot control. I believe the improvement we are making will ensure that we will emerge from this down turn as player stronger than ever in the forest product sector. Operator, I would now like to turn the call over to you for question.

Operator

Thank you, Sir. We will now take questions from the telephone lines. We will first take questions from financial analyst followed by the media. (Operator Instructions) Thanks for your patience. Our first question is from Daryl Swetlishoff of Raymond James. Please go ahead.

Daryl Swetlishoff – Raymond James:

Thanks, good morning guys. I have a few questions to begin with, just something around the pine beetle, I am curious currently in the (indiscernible) what percent of your log input is bind on beetle wood?

Jim Shepard – President and CEO:

Eighty percent.

Daryl Swetlishoff – Raymond James:

Eighty percent of your harvest. What are you experiencing more recently as you work through this wood, in terms of the solid log deterioration, are you learning more about how quickly the wood is deteriorating, and what are your current thoughts on that?

Jim Shepard – President and CEO:

Well, there is no question what continues to deteriorate and quite frankly we are making the best of a very challenging situation, and we work on it day by day.

Daryl Swetlishoff – Raymond James:

So, given that, in terms of the harvest (indiscernible), were 30% or 40% of long-term, higher than long-term average harvest in the (indiscernible), do you have any thoughts on the potential duration of this (indiscernible). I have seen 5 years, 7 years, up to 20 years of higher harvest, does Canfor have a view on the potential duration of the uplift?

Jim Shepard – President and CEO:

At the present rate, it looks like this will continue to about 2015, and then we will start to see the down draft of the annual allowable cut.

Daryl Swetlishoff – Raymond James:

That is helpful. Turning to your facilities, 12 million in CapEx in the fourth quarter plan, Tom can you give us an estimate of CapEx for 2009 and along with that are there any projects that you have plan to reduce the conversion cost in your existing sawmills?

Tom Sitar – Vice President Finance and Chief Financial Officer:

One of the projects that is on-going right now is an energy project at Fort Saint John, that is where a large part of the fourth quarter spending will go in to, we have not finalized our capital plans for 2009, we are working on that, and it will be a mix of maintenance projects and there will be some improvement project in that, but that list has not been finalized and neither is our overall expected spending.

Daryl Swetlishoff – Raymond James:

Last question again for you. Just for those FX collars, has that changed your published sensitivity to a one penny change in the Canadian dollar in terms of EBITDA?

Tom Sitar – Vice President Finance and Chief Financial Officer:

Yes, slightly we will now say that on the solid wood side of the business. The effect of a one cent change for a manual basis is about $7 million.

Daryl Swetlishoff – Raymond James:

On the solid wood side, and how about consolidated?

Tom Sitar – Vice President Finance and Chief Financial Officer:

Consolidated, I think it is about 12 million – this is on a EBITDA basis.

Daryl Swetlishoff – Raymond James:

That is one penny U.S., correct?

Tom Sitar – Vice President Finance and Chief Financial Officer:

That is correct.

Daryl Swetlishoff – Raymond James:

Okay, so the comparable number previously was somewhere around $20 million EBITDA, correct?

Tom Sitar – Vice President Finance and Chief Financial Officer:

That is correct, but you have to also remember our volume are overall down compared to prior years. So it is not a direct, you have to remember our sales volumes in U.S. dollars has been reduced, and we shut a number of operations, significant lower level of sales.

Daryl Swetlishoff – Raymond James:

Okay, just to follow up on that, currency and given the volatility, is there any appetite to hedge out the risk if the Canadian dollar appreciates?

Tom Sitar – Vice President Finance and Chief Financial Officer:

We have the hedge against the appreciating Canadian dollar, and we are not going to double up on what we have put in place.

Operator:

Thank you. The following question from Stephen Atkinson of BMO Capital Markets. Please go ahead.

Stephen Atkinson – BMO Capital Markets:

Thank you. Great job on cost reductions. I wanted to ask about how sound – I thought it was written off, but I guess it was not, and I know it is non-cash item, but are all the assets relating (indiscernible) now, as well as the (indiscernible) are written off?

Jim Shepard – President and CEO:

We are at a level now that I am satisfied, that it properly reflects the fair value, there are still some amount on the balance sheet, but it relates to trade receivables and I do not expect there to be any need to adjust those values.

Stephen Atkinson – BMO Capital Markets:

Okay, so it was a one-time event, in terms of the wood cost in the U.S. self, are you able to give us some colors to how you see things going there?

Jim Shepard – President and CEO:

Southern Yellow Pine has been taking quite a hit here is the last while – and it continues, and it is difficult to really analyze without having access to the data directly, but it is our belief that there has not been that much down time taken down in the Southern Yellow Pine area of the market sector compared to what has been going on with the SPF producers, mostly in Canada and somewhat is the states. So, it is our belief that it is really – not only a market issue, but it has also been a supply issue up to now.

Stephen Atkinson – BMO Capital Markets:

Okay. Another way to look at this hedging, just to help clarify for me, is that I would assume, let us say if it ballooned $0.98 and then I would assume that basically half would be at 98 and then the other half would be at the – whatever the exchange rate is for the quarter, is that a way to look at it?

Tom Sitar – Vice President Finance and Chief Financial Officer:

Yes, if 98 meaning Canadian dollar as premium, that is what the protection – that is correct.

Stephen Atkinson – BMO Capital Markets:

Okay, that is great, thank you.

Operator:

Thank you. The following question is from Paul Quinn of RBC Capital Market. Please go ahead.

Paul Quinn – RBC Capital Market:

Thanks. Just couple of questions, just on current market conditions when – I guess, this is directed to Don, just talking to your major clients on the lumber side, are builders competing right now or they are just sitting on the sidelines because they compete with foreclosures?

Don Kayne – Vice President:

I guess right now, there somebody really probably sitting on the sidelines, and obviously as you know, business is also significant. I think, a lot of these guys are just focusing probably more so now on the custom home side now compared to the track side of the market. I think that is probably what they are doing, but certainly with the consolidation then the shrinkage I guess is gone on a new home starts down there. There is probably several of them that are certainly sitting more on the sidelines.

Paul Quinn – RBC Capital Market:

Any hopeful recovery in 2009, or this going to be same with year with 2008?

Don Kayne – Vice President:

We think, obviously it is going to be a struggle here. It is probably too early here to project when that is going to turn around. It depends on who you speak with, but there are some – it is varying degrees of optimism, but certainly we do not see any real big change to the back half, and certainly at the earliest or even the fourth quarter of ’09 and moving in ’10. Certainly that is the word here, and just trying to capitalize as much as we can on the existing customer base that we have. So, we would see probably not a lot of change here for the next several quarters here.

Paul Quinn – RBC Capital Market:

I guess, back to Jim, just on last Christmas you took extended shots at some of your mills to free up, it sounds like you are not expecting a quick rebound here. Should we look for that announcement coming out soon?

Jim Shepard – President and CEO:

Yeah, it is our intention to shut down all our operations for the two weeks at Christmas holidays.

Paul Quinn – RBC Capital Market:

Okay, just on the – I guess to deliver the 4% delivered log cost, is that a direct relation of stumpage or is that something else?

Jim Shepard – President and CEO:

Stumpage has a relatively small component of that, most of that is our own controllable cost.

Paul Quinn – RBC Capital Market:

That is reduced logging cost or contractor cost as well?

Jim Shepard – President and CEO:

That is correct.

Paul Quinn – RBC Capital Market:

Well, congratulations.

Operator:

Thank you. The following question is from Sean Stewart of TD Newcrest. Please go ahead.

Sean Stewart – TD Newcrest:

Thank you. Just a couple of question guys. First Tom on the inventory adjustments, you addressed in the press release, the log inventory adjustment, but I am just wondering if you could talk a little bit about finished goods and the re-evaluation effects you would have there just on the lumber division.

Tom Sitar – Vice President Finance and Chief Financial Officer:

It was a relatively small amount, the large movement are in the log inventory. We have – I am just going to look up, we provided the detail on – provided it total, I am not going to break it down individually. But it was not a large number in the quarter, the big movements are on the log side.

Sean Stewart – TD Newcrest:

I just want a thought with – Canadian dollar dominated Western SPF prices would have dropped 10 or 15 bucks quarter-over-quarter using quarter end places, and I would have thought there would have been…

Tom Sitar – Vice President Finance and Chief Financial Officer:

That is right, but you have to remember the prior quarter, they were at a lower value, they had a run off in the middle of the quarter. But not when you look at it as much quarter end to quarter end.

Sean Stewart – TD Newcrest:

Okay, and second question is just on your pension situation, as I recall you had a balance plain assets versus obligations at the end of 2007 your balanced. I am wondering if you can just remind us of some of the assumptions you are using with respect to expected returns and maybe some sensitivities around that?

Tom Sitar – Vice President Finance and Chief Financial Officer:

Well, the sensitivities in all of that detail is our year end note, footnote to the pension, so that has not change dramatically, there is going to be some slight movement in the discount rate going in to next year. Going up a bit, so there would be some slight adjustment to it, but most of the numbers are similar to what is in the note – I do not have it right in front of me, but of course this is with respect to the effect of the market. Now all of that will have to play out next year, but it wont be a cash effect on us next year.

Sean Stewart – TD Newcrest:

Okay, understood, thank you.

Operator:

Thank you. We will now take questions from the media. (Operator instructions) Our first question is from Gordon Hoekstra of Prince George Citizen. Please go ahead.

Gordon Hoekstra – Prince George Citizen:

Good morning gentlemen, just a couple of questions, just wanted to know whether any of the insurance money from the NCP fire is starting to roll out as part of your CapEx plan and whether that will be part of the 2009 capital spending.

Male Speaker:

Yes, we are receiving proceeds of that, and we are making plans to invest it and it will be definitely part of our 2009 plan, and so we will spend a good part of that next year if not all.

Gordon Hoekstra – Prince George Citizen:

Do you have a sense at what point you will decide on which projects you are going to proceed with?

Male Speaker:

We are working on some of that now, they are being reviewed, we would probably in position shortly to announce one and other is early in the new year as we go ahead.

Gordon Hoekstra – Prince George Citizen:

One other question on curtailments, Jim mentioned about the two weeks at Christmas, are there any other thoughts, sort of going forward in 2009, particularly if things remain as they are.

Jim Shepard – President and CEO:

We have been for a year and half have been closely watching the market and deliberately making sure that our production levels were measured with the market conditions that existed, and that certainly has led to the indefinite closures of our two mills there Chetwynd and Mackenzie and right at the moment, quite frankly we are running at – we are producing two boards where we used to produce three boards. So we cut back significantly in the past year, and we believe that at the right moment, we are running at the proper level, but quite frankly we are watching it week to week in which way the market is going. So, we will produce the wood that we need to make sure that our highly valued customers are getting the quality products that they are expecting from us. But we just have to watch it – like I say on a week to week basis.

Gordon Hoekstra – Prince George Citizen:

All right, thank you.

Operator:

Thank you. (Operator instruction) There are no further questions registered at this time, I would like to turn the meeting back over to Mr. Shepard.

Jim Shepard – President and CEO:

Thank you operator, since there are no further questions. I would like to thank everybody for participating this call this morning and for interest in Canfor, and again I just want to say thank you to all of the employees of Canfor for the terrific job they are doing to help us conserve our cash and make sure we are in a strong position to get through this market meltdown and be even stronger at the other end. Thank you.