

**CANFOR CORPORATION**  
**Q2 - 2008 CONFERENCE CALL**

**COMPANY REPRESENTATIVES:**

James Shepard – President and Chief Executive Officer  
Thomas Sitar – Vice-President Finance and CFO  
Mark Feldinger – Vice-President Manufacturing  
Don Kayne – Vice-President Marketing and Sales

**Operator**

Good morning, ladies and gentlemen. Welcome to the Canfor Corporation Second Quarter Results 2008 Conference Call. Please be advised that this call is being recorded, and webcast live at [www.canfor.com](http://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. James Shepard, President and Chief Executive Officer of Canfor Corporation. Please go ahead Mr. Shepard.

**James Shepard - President and CEO:**

Thank you, operator. Good morning and welcome to Canfor's conference call to discuss the company's second quarter results for 2008. With me today is Thomas Sitar, Canfor's Vice President Finance and CFO; Mark Feldinger, Vice President Manufacturing; and Don Kayne, Vice President Marketing and Sales. I will give a brief overview of the quarter and then Thomas Sitar will speak to our financial results including providing some detail on some unusual items in the quarter.

Yesterday, Canfor reported net income for the quarter of \$64.2 million or \$0.45 a share. As you all gathered from the press release, the Q2 results included a number of unusual items that had a net positive impact on the results. After taking these items into account, the company reported and adjusted net loss from the quarter of \$20.8 million or \$0.15 per share compared to a similarly adjusted net loss of \$60.5 million or \$0.42 per share in the first quarter of 2008, an improvement of \$39.7 million.

Our solid wood business continues to be impacted by the weakness of the U.S. housing markets. Housing stocks were down another 4% against the first quarter and 30% down compared to the last year. At the same time, the inventory new homes for sale grew and supply average 11 months at the end of June compared

to a typical average of 5 months. On a positive note, the significant component of lumber supply concurrently curtailed or closed. Supply and demand are in better balance. Slowly, wood sales activity was sluggish through most of the quarter but with less supply in the marketplace, prices showed a modest improvement from the very low levels seen in the first quarter. Average SPF 2 x 4 prices were up \$25 per thousand board feet for the first quarter and Southern Yellow Pine 2 x 4 increase was \$9. OSB prices moved up sharply in April and May as a result of industry curtailments but came under pressure towards the end of the quarter. Prices for the quarter averaged \$174 U.S. or up \$36 from the depressed levels of the first quarter. Canadian softwood plywood prices were down \$10 Canadian per thousand from the previous quarter. Pulp prices were relatively stable in the second quarter and the Canadian dollar remained near parity compared to the U.S. dollar.

In addition to the modest market price increases and lower log and lumber inventory rate downs about which Thomas will speak more in a few moments. Operating results reflected several notable cost reductions. A reduction in stockage cost due in part to our consumption of significantly more low-grade logs. This is essentially beetle-killed wood and operational improvements including sawmill and planar efficiency gains achieved in the face of additional curtailments. Our unit manufacturing cost of our Western Canadian operations were down 6% compared to Q1 and 15% compared to the second quarter of 2007. The above factors more than offset the effects of rising energy prices on input and distribution cost and scheduled maintenance outages at two of Canfor Pulp Limited Partnership's pulp mills and our own Taylor pulp mill in the quarter.

Reflecting the continued market challenges, we indefinitely closed the Mackenzie Sawmill and the Polar Board OSB Mill. With the announcement of Mackenzie Sawmills which had previously been reduced to four day work weeks, were returned to normal shift levels. This change approximately offsets the reduction and production from the Mackenzie Mill. As we have noted before, all of the decisions concerning curtailments and indefinite closures are in keeping with our strategy to align our production output, to match the demands of our marketplace while still meeting the needs of our key strategic customers. We are continually reviewing our production levels to ensure that they reflect market conditions. On May 26, a fire occurred at the North Central Plywood Mill in Prince George. Thankfully, no one was seriously injured but the mill was destroyed. The company has undertaken a review of various rebuilding options available under the terms of our insurance policy and as noted in our press release yesterday, we have determined not to rebuild the plant. While this is a difficult decision for more than 200 needy employees that work at the mill, ultimately it is in the best interest of the company for the future. I would like to take this opportunity to thank each and every NCP employee for their many years of service to the company.

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

### **Tom Sitar - Vice President of Finance and CFO**

Thank you Jim. My comments this morning will focus on our financial results for the second quarter of 2008 and specifically the items that affect comparability with other quarters and which contributed significantly to the positive results. I will also review our business segment operating results. Canfor generated second quarter EBITDA of \$75.6 million, an improvement of \$149.6 million compared to the first quarter of 2008 and \$70.5 million compared to the second quarter of 2007. The company earned a net income of \$64.2 million or \$0.45 per share for the second quarter. In terms of the unusual items, I would like to now provide a list of these items and their amount. I should point out that the amounts I refer to are on after tax basis.

Item 1: A reduction of log inventory previously written down from cost to net realizable value in accordance with a new accounting standard adapted at the beginning of 2008 positively impacted net income by \$35.3 million or \$0.25 per share. The majority of the log write-downs took place in the first quarter of 2008 when we built normal seasonal inventory ahead of spring break-up. I should point out that the reduction also reflected a concerted effort by the company to reduce its log inventory levels.

Second, due to our lower cost on improved finished product prices, we recorded a reversal of log inventory write-downs recognizing the previous periods which increased net income by \$4.5 million, or \$0.09 per share. This amount relates to those logs not consumed during the quarter.

Item 3: With respect to NCP fire, we recorded a net gain of \$36.3 million or \$0.25 per share based on a preliminary estimate for net insurance proceeds which are well in excess of book value less cost related to the fire. We would expect some adjustment to this amount before yearend as we finalize our insurance claim.

Item 4: Gains of \$14.5 million or \$0.10 per share were recorded on derivative financial instruments largely as a result of rising natural gas and diesel prices. I should point out that we do not apply hedge accounting to these instruments. These gains are recorded below the operating income line.

Item 5: Offsetting these positive items, we recorded a restructuring, severance and mill closure costs of \$13.6 million or \$0.09 per share resulting principally from the investment closures in June of the Mackenzie Sawmill and the PolarBoard OSB Mill.

So these were the items that affect comparability with other periods.

Continuing on, capital spending in the second quarter was \$16.8 million which was comprised of \$6.7 million for Canfor and \$10.1 million for Canfor Pulp Limited Partnership. We expect to spend an additional \$25 million through the remainder of the year on the solid loop side of the business, meaning on maintenance of business and low risk projects.

At the end of the second quarter, Canfor had cash and temporary investments of almost \$300 million on a consolidated basis, \$297.6 million to be precise. This excludes cash held in acid back commercial paper that has been reclassified as a long-term investment. (10:00) No debt repayments were made or required during the quarter and none are due for the remainder of 2008. Our net debts to capitalization at the end of June were at 10% ratio.

At the end of the second quarter, Canfor had outstanding US\$371 million of foreign exchange option callers which are used to protect them against the Canadian dollars strengthening beyond heritage to the US dollar. These contracts extend to December of 2009 and provide protection for a significant portion of our monthly cash loans from our \_\_\_\_\_ and now on to business segment, the result beginning with lumber. The lumber segment reported EBITDA of \$46.3 million in the second quarter of 2008 compared to an EBITDA loss of \$93 million in the previous quarter. EBITDA included \$56 million related to the seasonal reduction of previously written-down log inventories and reversal of previous inventory write down and a restructuring expense of \$11 million compared to the first quarter EBITDA which included log inventory devaluation expense of \$38 million and a severance provision of just under \$1 million.

When these items are adjusted out with the EBITDA, there was a \$55 million quarter over quarter improvement in the second quarter. Higher sales realizations due to improve markets plus lower log and manufacturing cost were principal drivers of the improvement.

Turning to the panel segment, the panel segment had an EBITDA of \$6 million this quarter which compared to an EBITDA loss of 22.5 in the first quarter of 2008 but second quarter includes a Polar Board restructuring charge of \$9 million and \$16 million related to seasonal reduction of previously written-down log inventories and reversal of previously inventory write-downs. The reversal was primarily due to high realized Canadian prices for OSB. Lower OSB production volume reflected the closure of Polar Board and seven-day annual shut \_\_\_\_\_ OSB facility. You would recall that Canfor owned 50% of chief value. In addition, plywood production was reduced due to the fire and total destruction of North Central Plywood Plant as Jim has explained.

Now turning to the pulp and paper segment, the results reported for pulp and paper include Canfor's paper and pulp mill combined with Canfor Pulp Limited Partnership. In the second quarter, sales were \$251.2 million and an EBITDA was \$66.6 million. Results were down compared to the first quarter principally owing to the cost associated with maintenance shutdown taken at CPLP Northwood and Intercon pulp mill and Canfor paper pulp mill during the quarter. In addition, higher fibre and freight cost dragged down results in the quarter. I would point out detailed results for Canfor Pulp Limited Partnership in which we owned 50.2% were provided in the Canfor Pulp Income Fund news released and conference call last week. So we won't comment on it any further. And Jim, with that, I'd like to turn the phone back to you.

**James Shepard - President and CEO:**

Thank you, Tom. As you can see from our comments, this was an unusual quarter and I am hastened to tell you that the profit shown reflects that fact. However, having said that I am very pleased that we continue to show improvement in all our operational activities. These are still very difficult times and our employees continue to show great commitment to make sure that Canfor whether there's a storm in a robust way and on personal note, I wish to thank them for their contribution.

Operator, I'd now like to turn the call over to you for questions.

**Operator:**

Thank you, Mr. Shepherd. We will now take questions from the telephone lines. We will first take questions from the financial analyst followed by media (Operator Instructions) Thanks for your patient. Our first question is from Don Roberts, CIBC World Markets. Please go ahead.

**Don Roberts - CIBC World Markets:**

Thank you very much. A couple of questions, first for Tom, you'd mentioned about this gain on the national gas contracts. I guess in the last short while we've seen again a bit of drop in the gas prices. Should we be expecting a bit of a whit back in I guess next quarter where we gave up some of those gains or we just took, what's your guidance sir?

**James Shepard - President and CEO:**

Yes, some of that will reverse because it is unremarkable to market basis, so some of that we will give up that too.

**Don Roberts - CIBC World Markets:**

Okay. When while sitting back, you know, this with the higher energy and the freight cost is really going to the roof and a strong division of the railroads, could you quantify it for us what has been the impact of this freight cost instead of typical from Prince George down to maybe on to the Chicago Market, what orders of manage we'd been seeing?

**Don Kayne – Vice-President, Wood Products Marketing and Sales:**

Sure. Excuse me, this is Don Kayne, I guess basically on that, yeah we've certainly seen the freight rate increased across the world particularly not so much the raise but on the surcharges the impact of that, but I guess on the positive side of that, that we have also seen some increases on the actual freight that we charged to the customers basis well and all the given markets to offset some of that. So well it's not an absolutely a concerned for us going forward, we've been able to mitigate some of that.

**Don Roberts - CIBC World Markets:**

So have you actually been implementing sort of energy surcharges yourself to your customers?

**Don Kayne – Vice-President, Wood Products Marketing and Sales:**

Not energy surcharges and not transportation surcharges, we used to negotiate as the transportation surcharges increased we just attempt to recover loss in the market as much as we can.

**Don Roberts – CIBC World Markets:**

Okay, on the lumber side, Jim you know \_\_\_\_\_ what we are expecting on the EBITDA even before the unusual threat but that's good thought, that's a good thought. I am just wondering if you sit back here, you know, this talk is, you know, has been hit pretty hard and it's clear that the market conditions are bad but if there is something that we're missing on the analyst side on the positive side that you see but we don't appreciate right now.

**James Shepard – Corporation - President and CEO:**

Well, ultimately you guys will read the numbers I just think that there has been an incredible money effort going into all of our operations and in our marketing to improve our condition and it isn't something that we talked about everyday but you know we're watching our pennies in every single operation and every single mill we've got and our marketing people are doing everything they can to maximize the margins on every board we are selling so I don't think that there's anyone makes secret, you know, initiative that you guys are missing. No, it's just that we're just \_\_\_\_\_ and doing the best we can and I just say that on a personal note, let me say this I spent 32 years with selling and looking at the contribution of this company with every employee that I see as I go through the mills, we just seen better productivity and it's just more focused attention in getting their job done a little bit better.

**Don Roberts – CIBC World Markets:**

I have a question but I will get the back to queue. Thank you.

**Operator:**

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

**Sean Stewart – TD Newcrest:**

Thank you. Just further to Don's question on the lumber segment. I just want to dig in to the cost trend a little bit deeper there. In the MDNA you touched on a 6% quarter over quarter declined in Western Canadian unit manufacturing cost which I guess reflects some of the productivity improvement you touched on and maybe the closure some of the higher cost capacity. I guess when we back out the inventory swing so we would have got to a much steeper drop in unit cost and I am wondering if the balance is fibre cost reductions and if so if you could talk a little bit on the stumpage break you've seen over the past quarter.

**Mark Feldinger – Vice President of Manufacturing:**

So we have the stumpage breaks over there...

**James Shepard – Corporation - President and CEO:**

Excuse me; this is Mark Feldinger, the VP of manufacturing.

**Mark Feldinger - Vice President of Manufacturing:**

Yeah. We certainly have seen quarter over quarter downward stumpage adjustments in sync with what is published in the provincial revenue handbooks; however, we do not disclose any further detail in that as a matter of course.

**Sean Stewart – TD Newcrest:**

And would there been any similar smaller part of the business that your US operations any productivity improvement there that might have contributed to a cost reduction overall in the segment.

**Thomas Sitar – Vice President of Finance and CFO:**

There are some products, there is Tom Sitar here. There are some productivity and some cost improvement but they weren't dramatic.

**Sean Stewart – TD Newcrest:**

Okay, that's all. Thank you.

**Operator:**

Thank you. The next question is from Don Roberts from CIBC World Market. Please go ahead.

**Don Roberts – CIBC World Markets:**

Sorry I thought the queue is longer than that (laughing). I am thinking back on what we had implemented, you put yourself on other folk name. This has gone towards the big super mills so to speak and the constraining factor (20:00) there, it seem to be on the size was really the haul distance for bringing in the wood. And I'm just thinking now as we really put up the energy costs that the area in which you haul in, I would think has come down a fair bit and may be even questioning what the size of these mills ultimately. What was the site they should built at. Can you give us a sense on how this sort of reach of the mills has declined as you have seen these energy costs increase? Any sense of even some range of magnitude?

**James Shepard – President and CEO:**

Given the current location of the Mountain Pine beetle epidemic in our mill facilities, we have had no significant change in our operating area on a quarter-over-quarter basis.

**Don Roberts – CIBC World Market:**

Now, when you look at that beyond the beetle issue, these were meant to sort of use the beetle wood that also to be around a little longer. Any sense on that or if you look at your sort of a long-term harvesting plans?

**James Shepard – President and CEO:**

Certainly, on a longer-term basis, there will be some cost pressures on this area. There are still many years away, however, based upon our shelf life projections.

**Don Roberts – CIBC World Market:**

Okay. And any more update with regard to the great fall down as a result of the beetle issue on quality?

**James Shepard – President and CEO:**

No details. However, I would suggest some industry trends are available on industry websites are on that factor.

**Thomas Sitar – Vice-President Finance and CFO:**

But overall, just in terms of what we see in terms of our turn, there has been no real change. It has been holding steady and if anything, we are finding ways of just dealing with it better continually as we have to cope with it. So...

**Don Roberts - CIBC World Markets:**

Okay. Good. Okay. Thank you.

**Operator:**

Thank you. The next question is Daryl Swetlishoff from Raymond James. Please so ahead.

**Daryl Swetlishoff - Raymond James:**

Thanks. Good morning, guys. Just a couple of questions, can you detail what your planned downtime is looking at the second half of the year and a bit of a geographic color where that downtime might occur?

**Mark A. Feldinger- Vice-president Wood Products Manufacturing:**

Mark here. The bulk of our downtime in the current quarter, Q3, will be taken in the months of July and August and I would characterize that as the summer shuts which we are implementing at the majority of our operations for a two-week period. We are probably 50% plus through those shuts at this point in time.

**Daryl Swetlishoff - Raymond James:**

Any quantification of the number of board feet or the percent of your capacity that you intend to take down?

**Thomas Sitar - Canfor Corporation Vice President of Finance and CFO:**

I don't have it right in front us here, but it's...

**Mark A. Feldinger – Vice-president Wood Products Manufacturing:**

It's not insignificant.

**Thomas Sitar - Vice-President Finance and Chief Financial Officer:**

I mean it's reasonable. We can give you that off-line, but these are what we are now I think the normally going to see the summer shuts to take holidays in the mills and we expect them to all be back up in basically in September.

**Mark A. Feldinger- Vice-president, Wood Products Manufacturing:**

Correct.

**Daryl Swetlishoff - Raymond James:**

Okay. Thanks, Tom. Jim, you mention that you are hunkered down right now. At the same time, we're seeing evaluations of potential targets or take-out candidates for Canfor get hammered as well. Can you give us some update on what you're thinking with respect to strategy for Canfor longer-term especially with respect to potential acquisitions?

**James Shepherd - President and CEO:**

Well, I'm not sure I'm prepared to discuss with you our strategies as we go forward in that area. Let's just put it this way that the progress we've made is not insignificant and we expect to make more of it. And a good part of it has been that we have deliberately taken our eyes off of looking --watching the market go up and down and we said, "Let's just focus on what we can control." And that's what's been going on the past years, focusing on the controllables. So we will continue to do that and we have been working very hard to conserve our cash and maintain a strong and healthy balance sheet. And I think we've done that as well. And that is I think what differentiates us in this industry and we think will put on as a good position to take advantage of those opportunities when they appear and we will certainly be opportunistic and keep in mind that we operate not only in Canada, but in the United states and we will be very specific as we look at our opportunities and either one of those areas and certainly in the United States operations are attractive to us and your talking a little while ago about the cost of transportation. Well, that's a significantly less for us in our mills down in North and South Carolina. And we've experience that and it certainly adventurous to us. Let's not say that were not interested in what goes on up here in British Columbia and Alberta we'll be keeping an eye for any opportunities to present themselves.

**Daryl Swetlishoff - Raymond James:**

Thanks to that. If we are just thinking a little bit deeper, not into drinking habit but into... If we look the cost of your products lines, have you had given any change to how you view lumber versus panels, versus some other products that you might be interested in engineered wood or other.

**James Shepherd - President and CEO:**

We are focused on lumber and I think that's a pretty evident as you can see as we've move forward and that will continue that way.

**Daryl Swetlishoff - Raymond James:**

Okay. Thanks. I'll turn it over.

**James Shepherd - President and CEO:**

Okay.

**Operator:**

Thank you. Once again, if you're a financial analyst, please press star one at this time if you have a question. There are no further questions from the analyst? We'll proceed with the media. The first question is from Mark Nielsen, Prince George Citizen. Please go ahead.

**Mark Nielsen - Prince George Citizen:**

Hi and you're probably guessing what I may be asking about. I was wondering if you could elaborate on the reasons behind your decisions not to rebuild the North Central Plywood Plant.

**Mark Feldinger – Vice President, Wood Products Marketing and Sales:**

When we took a look at the long term \_\_\_\_\_ for plywood prices as well as the availability of suitable fibre and the alternatives that we have with respect to our sawmill operations those combined factors indicated as the best decisions was not to rebuild.

**Mark Nielsen - Prince George Citizen:**

Would you be able to say how much that you would have cost you to rebuild the plant?

**Mark Feldinger – Vice President, Wood Products Marketing and Sales:**

That really became and material in the calculation with some matter whether those insurance proceeds were best investors in plywood or in improving the profitability and efficiencies of our remaining operations.

**Mark Nielsen - Prince George Citizen:**

Okay. So, where were this money be going into that would probably be in follow question.

**Mark Feldinger – Vice President, Wood Products Marketing and Sales:**

We have determined that those funds will be invested in improving the cost effectiveness of our operations whatever they might be, but one example of that was the announcement yesterday where we'll be making a \$13.5 million investment in that energy systems at Fort St. John sawmill.

**Operator:**

Thank you. The next question is from Cheryl Jahn, PGTV. Please go ahead.

**Cheryl Jahn - PGTV:**

Yes. Good morning gentleman. I'm of course NCP \_\_\_\_\_. I'm looking at the news release that says the changing of our available fibre suppliers, one of the reasons not to reveal NCP. I'm just wondering if this is a reflection of perhaps mountain pine beetle epidemic starting to impact the forest industry in the major ways. Mark, is that a fair comment?

**Mark Feldinger – Vice President, Wood Products Marketing and Sales:**

Cheryl, absolutely that's a fair comment. Dead pine cannot be used for plywood once it has had dried in chapped. We're seeing at ever reducing quantity of \_\_\_\_\_ which was the key component of fiber supply through that mill and we took a very long term to look at that and the other species of \_\_\_\_\_ which are available will be coming under pressure as these are reduced at the back into the mountain pine beetle epidemic and it's our strategic direction to maintain that fiber access for sawmill operations.

**Cheryl Jahn – PGTV:**

So, I'm hoping this is not reflecting the decision not to rebuild North Central Plywood. I'm hoping is not a reflection of perhaps Canfor's confidence in fibre supply in this region as whole.

**Mark Feldinger – Vice President, Wood Products Marketing and Sales:**

It is absolutely as not a reflection of confidence in the fibre supply. However, it is a response to the reality that there will be downward pressure on fibre supplies and we want to be appropriately positioned for that.

**Cheryl Jahn – PGTV:**

Alright, thank you Mark.

**Mark Feldinger – Vice President, Wood Products Marketing and Sales:**

Thank you.

The next question is from Arthur Williams from the Prince George Newcrest. Please go ahead.

**Arthur Williams – Prince George Newcrest**

Hello. Gentlemen, I was hoping someone might be able to tell me how the NCP was doing financially prior to the fire. Was it a profitable at that time and I guess what were your projections before it burnt down.

**Thomas Sitar – Vice-President Finance and CFO:**

We normally don't comment on individual mill performance that the most recent periods the mill wouldn't have been profitable and it would have been losing cash, but that's the more occurrent, but it wasn't a short run. This wouldn't a short run decision and the fact that it may have been profitable (30:00) in the pas. That is really now the part that we look at. We look at what part of projection then our best assessment is going forward.

**Arthur Williams – Prince George Free Press:**

Thank you very much, Helen.

**Operator**

Thank you. The next question is from Tessa Holloway from the Alaska Highway News. Please go ahead.

**Tessa Holloway – Alaska Highway News:**

I was hoping to actually ask about the wood residue energy facility. When \_\_\_\_\_, do you know if that's going to create any new jobs there?

**Mark A. Feldinger – Vice-President, Wood Products Manufacturing:**

There will be minimal employment impacts from the installation of an energy system on the site. It will be managed by the personnel who were there today as part of their regular duties.

**Tessa Holloway – Alaska Highway News:**

Okay and you know when that will be built?

**Mark A. Feldinger – Vice-President, Wood Products Manufacturing:**

Our plans are to commence construction as soon as possible with an intention of having it up and running by the end of the first quarter of 2009.

**Tessa Holloway – Alaska Highway News:**

So how is that going to move previously, and possibility of a mill?

**Mark A. Feldinger – Vice-President, Wood Products Manufacturing:**

With the current trend in energy crisis, it will have a significant impact on the possibility of (31:06) operation.

**Tessa Holloway – Alaska Highway News:**

So it will just help supply a little energy for the mill?

**Mark A. Feldinger – Vice-President, Wood Products Manufacturing:**

It will displace natural gas that is currently used to dry lumber in that facility.

**Tessa Holloway – Alaska Highway News:**

Okay and do you know how much energy is going to be produced or what in that?

**Mark A. Feldinger – Vice-President, Wood Products Manufacturing:**

Sorry, we don't disclose that level of detail.

**Tessa Holloway – Alaska Highway News:**

Okay. You mentioned that money from the insurance was going into this building.

**Mark A. Feldinger – Vice-President, Wood Products Manufacturing:**

Correct. That will be a portion of the insurance proceeds that are to be directed there.

**Tessa Holloway – Alaska Highway News:**

Okay. I think that's all my questions.

**Operator**

Thank you. The next question is from Cheryl Jahn from PGTV. Please go ahead.

**Cheryl Jahn – PGTV:**

Sorry, Mark. I had a subsequent question; I just had some of it. Is there anything that the company is planning to help mitigate the circumstances or the situation for some of these 280 plus employees at NCP? Is there anything in the (32:04) by way of the company they help in some place?

**James F. Shepard – President and CEO:**

It seems the operator or maybe I can just respond to that. We are seeking opportunities from employees at the other mill sites and we're supporting and ensuring that they are treated fairly and we're providing counseling and job finding support. You should know that the NCP mill union and PPWC and almost all of other mills are USW which create certain restrictions on the hiring of RAD employees due to the third shift reductions that have taken place in some other mills previously.

**Operator**

All right. Thank you, gentlemen.

**James F. Shepard – President and CEO:**

Thanks, Cheryl.

**Cheryl Jahn – PGTV:**

Thank you.

**Operator**

The next question is from Arthur Williams from the Prince George Free Press. Please go ahead.

**Arthur Williams – Prince George Free Press:**

Thank you for letting back in here. You mentioned that the 36.2 million over, that's the net, estimated in net gain. What was the total amount and what were the cause associated with the fire and the estimated value of the mill when (33:11).

**Mark A. Feldinger – Vice-President, Wood Products Manufacturing:**

This comes with the chart. That is the only financial information that we are going to provide. We don't provide any specific details of the component, their numbers, and we wouldn't go into that detail, and also the amount is not finalized at this stage. This is the first, our first estimate currency.

**Arthur Williams – Prince George Free Press:**

Any idea when all the insurance will be final and completely paid up?

**Mark A. Feldinger – Vice-President, Wood Products Manufacturing:**

Well, two issues. The finalization I would expect by the end of the fourth quarter to have a final number but some related to how it is going to be paid out. But again, even when it's final; we won't provide the detail that brings out the component that provide the total effect.

**Arthur Williams – Prince George Free Press:**

Okay, thank you.

**Operator**

Thank you. The next question is from Tessa Holloway from the Alaska Highway News. Please go ahead.

**Tessa Holloway – Alaska Highway News:**

I just had one another question. I was just wondering how long this decision with the VariFlex a more of long term commitment to this mill and just where you see the future of the lumber industry, if you could just speak a little about that?

**Mark A. Feldinger – Vice-President, Wood Products Manufacturing:**

I would suggest that given the green nature of the fiber in the Peace area, it clearly is a strategic location for us and this investment is closer with our view.

**Tessa Holloway – Alaska Highway News:**

All right, thanks.

**Operator**

Thank you. The next question is from Cheryl Jahn from PGTV. Please go ahead.

**Cheryl Jahn – PGTV:**

Sorry Mark. I just keep telling I'm beyond and I'm not. I just heard you refer to the green nature of fiber supply in the Peace Country is a strategic move. How does that reflect when you look at the non-green fiber supply to the west of us and not in a Peace Country? Is that a reflective of a shift? I mean is Canfor moving away from western DC and moving into the Peace Country is it more viable situation or viable location?

**Mark A. Feldinger – Vice-President, Wood Products Manufacturing:**

Sure. I would suggest their investment is reflective of the fact that our cost structure imports and join to something we wish to improve, and we will look at our capital investments with a view to long term fiber supply at each of the facilities that we make them out and that's how I would characterized them.

**Cheryl Jahn – PGTV:**

Okay and when you look at operations like Houston for example right in the heart of the bug kill I guess you could say. Is that operation still viable or is that going to be a shift there as well?

**Mark A. Feldinger – Vice-President, Wood Products Manufacturing:**

I would suggest that Houston definitely has a very long term future with us and I wouldn't classify this being in heart of the beetle kill particularly with this access to fiber in many directions.

**Cheryl Jahn – PGTV:**

All right, thank you and I am bailing for sure. Thank you.

**Operator**

Thank you. The next question is from Peter Martin from the International Economic Report. Please go ahead.

**Peter Martin – International Economic Report:**

Hi. I'm sort of new to this. I'm in DC and I've just noticed that thing about the pine beetle and the lower stumpage rates. Can you give me an idea of what percentage of wood that goes in to your mills now? It's from pine beetle kill and does that greatly increased some any previous quarter or is it about the same as you indicated?

**Mark A. Feldinger – Vice-President, Wood Products Manufacturing:**

I would estimate that about 80 to 85% of the wood going through our mills in total or from pine beetle affected stance and a significant portion of those are low grade logs with a high degree of check related to the fact that they have been dead for a number of years.

**Peter Martin – International Economic Report:**

Are they still good for dimension lumber?

**Mark A. Feldinger – Vice-President, Wood Products Manufacturing:**

Yes they are.

**Peter Martin – International Economic Report:**

You get less out of it, obviously.

**Mark A. Feldinger – Vice-President, Wood Products Manufacturing:**

That is indeed the major factors, recoveries and the challenges with respect to processing dry beetle-killed wood. However, we are adopting our milling practices and harvesting practices to mitigate this impact.

**Peter Martin – International Economic Report:**

So, obviously the lower stump rate reflected the lower quality of the wood?

**Mark A. Feldinger – Vice-President, Wood Products Manufacturing:**

The lower quality or lower value absolutely.

**Peter Martin – International Economic Report:**

Perfect. Okay, thank you very much.

**Operator**

Thank you. The next question is from Mark Nielsen from the Prince George Citizen. Please go ahead.

**Mark Nielsen – Prince George Citizen:**

I thank you for letting me back in. Any idea what you might be doing with the plant and the property as it currently stands?

**Mark A. Feldinger Vice-President – Wood Products Manufacturing:**

We have not had any significant discussion at this point in time in terms of the future of the site. We just made a decision yesterday with the board. This site is a lease site, so we will be exploring our options over the next number of months.

**Mark Nielsen, Prince George Citizen:**

Thank you.

**Operator**

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

**James F. Shepard – President and CEO:**

Well since there are no further questions, I would like to thank every one of you for your interest and for your participation on this call this morning and I look forward to talk to you again at the next quarter.

**Operator**

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