

**Canfor Corporation
Fourth Quarter Conference Call
8am (PST) February 23, 2007**

Operator

Good morning, ladies and gentlemen. Welcome to the Canfor Corp. Fourth quarter results 2006 conference call. Please be advised this call is being recorded and webcast live on www.Canfor.com. A recording of the call and a transcript will be available on Canfor's web site.

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 Corp. Please go ahead, Mr. Shepherd.

Jim Shepherd - Canfor Corp. - President and CEO

Thank you very much, Operator, and good morning, everyone. Joining me this morning I've got Scott Wilson, our Vice President of Finance and Chief Financial Officer; Patch Bonkemeyer, our Senior VP of Operations; Kevin Clayton, our Corporate Controller and Ian McIver, General Manager-supply chain, should there be any questions around the impact of the rail labor disruptions.

I would like to very briefly go through some of the events of the fourth quarter and the year 2006, and then hand over the call to Scott Wilson to give more detail on the numbers and what it means for Canfor in the quarter; and then return with a few comments on our business environment and some of the items that we are working on going forward but most importantly leading time for you to ask questions and get some clarity as to what is happening in the Company.

Very briefly the fourth quarter was dominated by the duty refund of the Softwood Lumber Agreement that was fine with the United States and that impacted not only on the cash on our balance sheet, but also the numbers for the quarter. EBITDA was \$704 million on sales of \$892 million and a net income of \$465 million.

We did have a number of unusual items in the quarter including the Softwood Lumber Duty rebate and Scott will take the time to go through each of those with you in a moment.

It was a difficult quarter in terms of our markets. We have experienced an oversupply in the lumber and panel side which are the main product lines of Canfor today. SPF prices did deteriorate in the quarter and in fact at one point reached a low of under U.S. \$230 on the random length of benchmarked price. This is approximately 12% lower than last year and combined with the 15% export tax at the border obviously had a big impact on the performance of our lumber business.

As well Southern yellow pine prices were 11% lower quarter over quarter. 8% for OSB, and one of the better markets was plywood just in stability of pricing. But all product lines were challenged with oversupply into the markets.

As a result we did take some downtime curtailment in the quarter. Roughly 66 million board feet of product came off of our lumber production and 44 million square feet on OSB. Recently had further curtailment to Canfor's product line Plateau going from three shifts down to two, Tackama plywood from a seven-day to a five-day operation and PolarBoard from a seven-day to a five-day operation which has significant impacts on the capacity on an annual basis.

Overall the mills ran well, recognizing the fact that we were dealing with difficult markets and trying to control costs in every aspect of the mill. So had the market been more buoyant and stronger we would have seen much improved performance over the operating divisions.

In terms of capital, Plateau is progressing very well. Peace Valley OSB plant is now well on the startup curve over 80% producing capacity. And we are not pushing it to the full extreme just because of market conditions but that plant has done extremely well with the tools that it has to work with. And our pellet plant in Houston is now up and running and generating cash and the energy phase of that project will be online later this quarter or early Q2.

So with that as an opening remark, I would like to pass it over to Scott Wilson and he can go through in more details, the numbers. Scott.

Scott Wilson - Canfor Corp. - VP - Finance and CFO

Thank you, Jim. As Jim noted, income for the quarter was \$3.26 per share. The following after-tax adjustments take the GAAP EPS from \$3.26 down to negative \$0.38. The duty refund plus interest of \$551.2 million, the write-down of a noncontrolled equity investment of \$16.2 million. Loss on foreign exchange debt revaluation of \$9.9 million and \$5.4 million for various mill closure severance costs and various tax adjustments.

Canfor received US\$922 million of duty refunds inclusive of interest of US\$84.5 million during the quarter. Offsetting this was the special charge, the export charge of CN\$164 million, which was paid at the end of January and approximately CN\$175 million of income taxes, which we will pay at the end of this month.

The net earnings impact in Q4 after the reversal of a prior period net duty receivable is \$718 million and the increase to Canfor's cash balance after the tax and special charge i.e., at the end of February is expected to be about C\$550 million. The cash is being invested in U.S. and Canadian short-term securities.

Canfor repaid US\$10 million of long-term debt in the fourth quarter. A further US\$33 million will be repaid in Q1 and will not be reborrowed. At the end of first quarter 2006, Canfor's long-term debt will be approximately US\$433 million. We invested almost \$34 million of capital into the mills during the quarter for a total of \$107 million for the year.

At this time we expect to spend \$125 to \$150 million of CapEx in 2007 excluding the CPLP pulp business. Approximately 40% of the total is maintenance of business capital, 45% for improvement projects such as lumber grade-related projects across Canfor's mills, focused on increasing mill nets would the remaining 15% on strategic projects -- the largest of which is the expansion of the Graham sawmill at New South where we are adding approximately 65 million board feet through a second shift and related drying capacity.



So without going through all of the details that we disclosed in yesterday's press release, here is some color on how the segments performed in the quarter, beginning with lumber.

Despite the continued decline in lumber prices which in Canadian dollars were 11% lower for SPF and over 9% lower for Southern yellow pine EBITDA at -45 million before duty refund was a flat result quarter over quarter.

In terms of changes over the quarters, the negative impact of the lower lumber prices in Q4 was offset by a reversal of dressed lumber devaluation and lower exchange rate. I will just remind you that we are required to mark the value of lumber inventory at the lower of cost and realizable value. At year-end we used the following month forecasted sales price to value all lumber inventory held at quarter end.

In terms of operations on a quarter-over-quarter basis, lumber production declined slightly reflecting 66 million board feet curtailed, taken due to market conditions. Lower production and the adverse weather negatively impacted volume metric cash conversion cost. However cash spending was maintained within planned levels. The beetle fiber impacts were slightly negative to fiber recovery although log costs quarter over quarter were relatively flat. Despite the beetle issue, we maintained our grade outturn levels quarter over quarter.

Our New South mills continued to perform to operating expectations but also face a difficult pricing environment. Production curtailments were also taken at New South, which primarily accounted for the lower quarter-over-quarter production levels.

Now turning to panels, we had a \$10 million decline in EBITDA quarter over quarter which was primarily due to lower OSB prices and the cost to move our Tackama plywood mill from a seven-day operation to a five-day operation. We had a write-down for the closure of the fiber mat line at our panel and fiber mill.

The Peace Valley OSB joint venture continues to progress along its startup curve, as Jim noted. During the quarter, the mill operated on target at about 80% of its 820 million square could capacity and it expects to achieve full capacity in approximately 12 months. Due to low mill net returns, our PolarBoard OSB facility took 44 million square feet of curtailments in the fourth quarter and as previously announced in Q1 of '07 will move from a seven-day operation to a five-day per week operation. That will reduce its annualized production by about 29%.

This mill's operating performance has improved and consistent with achieving its design capacity. Despite the Q4 curtailments at PolarBoard productivity increased 3.3% on a square foot per man-hour basis.

And now the pulp and paper segment which includes 100% of the results of CPLP, which operates three NBSK pulp and paper mills and Canfor's Taylor pulp mill which was excluded from the spin out. For accounting purposes we consolidate Canfor Pulp's results and then back out the 49.8% minority interest on an after-tax basis that Canfor does not own.

Instead of going over the results that Canfor Pulp released last week I will just say that there that the pulp and paper segment had another terrific quarter, both operationally and with strong markets, and we look forward to continued strong earnings and cash distributions from them in the near-term.

Finally, although we don't include the results of how sound limited partnership, in our financial statements we do own 50% of Howe Sound along with Oji Paper. It had a very good year and met its operational and financial targets. The owners of Howe Sound and Howe Sound itself along with lenders to the partnership are in the late stages of capital restructuring, designed to reduce fixed charges and that is going fine albeit a little more slowly than we had first planned.

So, Jim, back to you.

Jim Shepherd - Canfor Corp. - President and CEO

Thank you Scott. Just like to briefly describe our business environment today and then open up the call to questions. The markets for lumber panels are very difficult today; and although we see daily fluctuations the selling prices certainly into North America are at very low levels taking into account not only the sales price current level of Canadian currency value and of course the border tax that we have now in shipments into the U.S. market.

Frankly these prices are just not sustainable over time. Either the demand has to improve or supply has to come off the market. And the question is how will that dynamic play out over the course of the next few months? I think most people expected a fairly stable housing market albeit lower than what we had witnessed over the last three years and as recently heard in January the number of new housing starts is significantly lower than many have predicted, which is a sign of either corrections in inventories or in fact a correction in the housing market overall.

We do see fairly steady demand on the home modeling and repair business but in terms of new housing starts let the numbers speak for themselves. So we have a very, very difficult market environment and that will continue for some time.

As a bright spot, however, export markets certainly in Asia, Japan have been quite buoyant. In fact we have seen quite an increase in lumber values over in the European market so especially can we are trying to take advantage of any or all of those opportunities.

It's been talked about the fair amount but the beetle issue for those of us from British Columbia and certainly in the central interior has become a very, very dominating topic of study trying to understand what it means to the business not only up-to-date but going forward. It's very critical in terms of all decision making whether it's in regards to capital improvements to facilities, what it means to our product mix and how of course it will play out over the long-term with our security and fiber supply to the business. Canfor, as well as others, are dedicating a tremendous amount of resources into understanding this. And although we have seen a deterioration in quality that impacts not only in mill performances but also on great outturns, we are still very confident that the supply will in fact be very stable for many years into the future. It is really understanding how to best handle the deteriorated log quality coming into the facility and getting the most value out of it. One example being, in many sawmills, the traditional fiber flow or lumber flow can have a fair amount of stress on

lumber. And we are finding that there is more breakage as we go through the process, which has impact on productivity as well as volume coming out of the mill which, ultimately, flows through to your bottom line.

Again we are putting a great deal of effort into understanding this. The question of value and what it means to -- what a company like Canfor pays for this fiber i.e. in the form of stumpage or how we in fact go after the best timber profile for any specific mill is a big part of the conversation that we have with our government. And as you know we have gone to a market-based timber pricing system and we need to accelerate the form that is used in that market pricing formula so that we can have a better and more accurate reflection of value. And it is important that we get on with that and move the timeline as quickly as we can.

Currently, we are dealing with the disruption of railcar supply to the mills. We appreciate the efforts of CN and what they are trying to do in terms of servicing our Company but the bottom line is we are getting less than our needs. And depending on location it is quite a percentage drop from what it would take to keep our mills running on an even keel. So this week we did announce further curtailment as we are mindful of building inventory and making sure that we don't go too high in that regard. So our hope is that the resolution for CN rail labor dispute is found setting and we encourage our government in Ottawa to help facilitate that and find a way to get back to normal service.

We are mindful also of the fact that there is only a finite number of railcars in the system so even when we get service back to normal you'll take some time to deal with the backlog of wood and, therefore, we are very very carefully not allowing our inventory to rise to abnormally high levels.

In terms of our bank account, as Scott mentioned, we do have a very strong balance sheet and going into a difficult market environment, if nothing else it gives us comfort that we've got the resources to weather the storm here. And we want to be very careful how we utilize that cash. We still have many opportunities in our current facilities to upgrade not only on operating performance and reducing costs we are also trying to factor in what it means to the beetle fiber when we make these decisions.

So we do have the resources to continue improving our assets and we will do so but we will do so in the balance of fiber supply, fiber quality, market conditions and reducing cost. So with the balance sheet the way it is today we want to make sure that we are considering and weighing all options and a point I will make on this call is to utilize the word 'patience'.

We want to make sure that our options that we evaluate and look at are in fact allowing us to make value accretion for the shareholders of Canfor.

So overall the year was a very very busy year. As we said on the press release, a significant number of events with the acquisition of our facilities down in the Carolinas through New South. It has been a good addition to the Canfor family. And we look forward to growing that business in time going forward.

A reorganization of the coastal assets as Scott mentioned, very pleased with the performance of Howe Sound not only as the markets have improved for pulp and paper but this facility is running at record levels. And everybody is doing very well at Howe Sound. And of course, the creation of our Canfor Pulp Income Trust and

the spin out to shareholders not only on the basis of shareholder value but these facilities are running at record levels as well. So taking advantage of the good pulp markets that we are seeing.

I would like to finish the call just by taking all the employees at Canfor for their hard work in the year 2006. We are going to have to hunker down for 2007 of the beginning of this year and we will get through it but I appreciate all their efforts. Going forward will concentrate on delivering on our capital expectations and making sure that our operating performance continues via the path of improvement and on that basis of all I will hand the call back over to the operator and we are very open to all questions. Operator.

Operator

(OPERATOR INSTRUCTIONS) **Mark Bishop**, RBC Capital Markets.

<Q>: Just a couple of questions. First it sounded as if this week, there were conversations between the U.S. and the Canadian representatives regarding a status update on how the softwood lumber agreement is working and I'm just wondering if you can maybe give us some color on how those have gone? And I guess with respect to specifically two issues. How do you think their receptivity is going to be to accelerating as you say the program, with respect to getting the right pricing to recognize the beetle problem? And the second issue just maybe an update on the actual search calculation. I'm not sure if that has necessarily been flushed out with the Americans as to where they're going to go on that.

Jim Shepherd - Canfor Corp. - President and CEO

That's a good question. The agreement is quite a detailed agreement and so now it is coming down to the devil in the detail. The question of the search will be resolved between the two federal governments. I should say as an overview my understanding and the way I knew it is that both federal governments want this agreement to work. So as you look at the intent of the negotiators and how their wording was put into the agreement I think we will find solutions to most issues that come up between the two countries on how the agreement is being interpreted.

So in terms search calculation I, we in Canfor, the Canadian industry has a certain view. I think it is a view that is well-recognized right through Canada with our federal government. So I hope that the calculated formula will prevail in the Canadian interest and is the way the deal is intended to be.

When I talk about stumpage and the market based system that we were are implementing in BC, it's in my view all part of the deal. Part of the big push from the U.S. industry has been to go to market principles in British Columbia to get away from the so-called ORA subsidy and now that we have the system in place it is taking time to build a databank on what market criteria will be used. So all I'm saying is that now that we are paying a tax at the border and we have a system in place let's make sure that the system performs the way it was intended.

Even though we do want more and more background information, I think this is all part of the game plan. The Americans were well understanding of what we were doing in British Columbia so I don't think there is anything here out of line. And I just encourage our government in British Columbia to do things like putting more timber on the market so we can get a better test for market pricing. That we in fact use that market pricing to influence the balance of costing of wood and tenures and again that was all part of the deal.

<Q>: Second question, Jim, is on the Japanese market and the J grade. It sounded as if you haven't seen much of a change I guess quarter over quarter in your grade outturn. I was wondering if that applies specifically to J grade as well. I understand maybe you are sourcing alternative sources of J grade in the area. But also on that note if you are seen maybe a change in the receptivity from the Japanese on the supply to accept a little bit of a downgrade from what their original product line has been?

Jim Shepherd - Canfor Corp. - President and CEO

J grade is J grade. So when we have a board of J-grade going to Japan even with beetle wood it has not been impacted on the quality. It is basically coming out of the center of the log. If you look at overall when we measure as most companies do for example predate represented to two and better. That or greater in terms of grade. Some percentage points of lost grade has been recognized because of the beetle wood. But it has not impacted on specific quality grades for J-grade nor for the volume of J-grade that we are producing today.

The Japanese market over time has been somewhat receptive to a little bit of blue stain. There's a limit how far you to go. It's not as if it has to be completely with that blue stain but we are very mindful of the quality that our Japanese companies' tough customers are accepting. So when I talk about a slight deterioration it has not impacted the J-grade volume or quality of this point.

<Q>: One last question for Scott. Just on Howe Sound pulp and paper, if you could maybe clarify how the mechanics might work, given the improvements you are seeing there, in the restructuring of the balance sheet. Is there a point where we are going to see this back on your own balance sheet and how will that pass?

Scott Wilson - Canfor Corp. - VP - Finance and CFO

There is no intent to bring Howe Sound back unto Canfor's balance sheet. We do have some accounting exposure as a result of the transactions completed last year with Western Forest products and the establishment of Coastal Fiber which is delivering fiber to the mill. And as the contract with Western for that fiber is amortized there is a small yet increasing recognition or potential to recognize our exposure, I guess, from the accounting point of view on Canfor's income statement to any losses at Howe Sound but it is very minor.

So the restructuring is going well but it takes time. One of the reasons that it is taking longer is the structure of the Howe Sound debt agreements themselves. They were done on an individual bank by bank basis as opposed to a syndicated loan and there are seven or eight Japanese banks involved and they each have to get their moment approvals internally and that is frankly a fairly bureaucratic process that we're finding is just taking quite a bit longer.

So I hope that answers your question.

Operator

Daryl Swetlishoff of Raymond James.

<Q>: Jim, you've been quite clear in not saying your strategy with respect to your focus on marketing. And I would like to know and maybe you can outline how has a change in the mountain pine beetle fiber quality impact that how you think about that strategy going toward, specifically with your focus on marketing?

Jim Shepherd - Canfor Corp. - President and CEO

Again a very good question. The basis of Canfor's marketing strategy is to maximize value out of each and every log. We call it maximizing margin and by working with customers that expect higher levels of quality and service, and on the basis of any transaction that would be paid for in the selling price. So now that we have a mountain pine beetle issue with some unknowns I think the biggest question mark is not so much the strategy, in fact the strategy I believe to be the right strategy is just the level of commitment that we are prepared to make just on understanding our log base.

So if the premise is not to impact the customer at all which is very important so the customer should not see any deterioration in quality or service provided to that customer, then we just have to be very mindful on the log quality; and can we get the full value out of that log. So I think it -- my answer is, it's not a question of revisiting strategy or questioning strategy. It's a question on making very, very, very sure that we can deliver on the commitments and in some aspects of the mountain pine beetle we have concern that level of quality can be there.

<Q>: Just as a follow-up then. In your discussion you talked a bit about more the economic issues with respect to the mountain pine beetle. Essentially, if you got the log at the right price it wouldn't make as much of the difference but if the quality of the log isn't there to service your customers would that also necessitate perhaps a change in your thinking?

Jim Shepherd - Canfor Corp. - President and CEO

No. I think it's just more information better understanding. Is there concern over the mountain pine beetle? The answer is yes. But I want to keep it in prospective here. Although we will see some impact on the operating performance just because of the log quality. I think the operations are really looking at how to recoup some of that loss. How to better manage log flows or lumber flows to the mill. Better drying techniques. Better ways of handling the lumber through the planning process. Much more technology into grades and so forth.

So I don't think we have really understood everything about the mountain pine beetle and just the tools that we can put in place to fight back and recoup some of the deterioration.

On the revenue side, again, it's not a question of strategy. We want to make sure that our customers see in Canfor a long-term supplier with a full commitment and we will be beside them.

But we just don't want to go over a point where we have trouble delivering on our commitments. So there's the balance and certainly on the revenue side, the more higher grade products we can put out the higher revenue side we could see. So I think the story has yet to be finished.

<Q>: Just a final pine beetle question. Has your outlook with respect to the potential for elevated harvest in the BC interior changed recently? Is it still nine to 20 years of an elevated harvest that you expect?

Jim Shepherd - Canfor Corp. - President and CEO

Yes.

<Q>: Turning to what's your prices, can you give us and indication of what your chip prices are in the BC interior today and any thoughts on where you think they might be headed?

Jim Shepherd - Canfor Corp. - President and CEO

Scott, you want to answer that?

Scott Wilson - Canfor Corp. - VP - Finance and CFO

Sure and, Patch, if I don't have the numbers right please help me out. At the present time they are in and around the low to mid 60s per ton and the pressure is for that to increase as the chip supply is very tight throughout the province.

Patch, any further comment?

Patch Bonkemeyer - Canfor Corp. - SVP-Operations

I think that's correct. I think if you look around the products you will find that a lot of people have started whole log chipping. It is not a cheap cheap way of accessing chips and it is at least probably double the price of what we are getting at the mills right now. So I think with that in place you are going to see a lot of pressure on that price to go up. How far I don't know but again it is driven by the market.

<Q>: So presumably the absolute upper limit would be whole log chipping limit which would be what? About \$120 a ton?

Patch Bonkemeyer - Canfor Corp. - SVP-Operations

It's probably in the range. I think it depends on the efficiency of the whole log chippers and the log supply into them but there's an upper limit that will eventually hit. I don't think it will go to the \$120 a ton. I think that's a incremental piece that they will use to fill the gaps at the top end but I certainly think there's dynamics to push the price up right now.

<Q>: If I understand that there should be a seasonal component to lumber production and chip pricing. Is it the cyclical downturn with respect to the downtime and not (indiscernible) is overwhelming the seasonal kind of ramp up you might expect?

Patch Bonkemeyer - Canfor Corp. - SVP-Operations

I hope I understand your question right that there is pressure for curtailment. There's pressure on the operating group to get capacity out of the system these days. We have made announcements of major cutbacks that certainly impacts the chip supply at a time when and we will probably still impact that chip supply as we get into the busier billing season this summer. And it's at a time when the pulp market is very good and I think the pulp mills are trying to run as much pulp as they can at a time when the lumber mills are trying to run smaller volumes of lumber and you see curtailments [announced].

So those two things are kind of running together right now and I think that is a big piece of the impact you're seeing.

Jim Shepherd - Canfor Corp. - President and CEO

It's Jim here. As you see or have heard in the commentary out of the Canfor pulp business, income trust chip inventories are relatively low compared to historical levels combined with the residual wood coming out of the supplier mills to the pulp business and the whole log chipping there's kind of a balance. It is holding its own. We are very mindful when we make curtailment announcements or shut down sawmills even on a temporary basis to just how that impacts on the chip flows and what it means to the final bottom line for Canfor.

So I think for me, it's not so much a seasonal thing as sort of a lumber market reality today and the pulp market reality. So it pays to have a higher cost chip going in if you can find it just to keep the mills running. But it also has to be carefully weighed against the sawmill losing money with the current lumber price. So it is more a market dynamics as opposed to seasonality.

Operator

Sean Stewart of TD Newcrest.

<Q>: Just a couple of questions. First on the wholesale lumber volumes down sharply quarter over quarter. Am I right to read that, that just given the price differentials between North America and European lumber market that you are just bringing over a lot less from Europe and we can expect those sorts of volumes going forward?

Jim Shepherd - Canfor Corp. - President and CEO

No question the value of the euro has discouraged European suppliers from coming into North America. And we have seen a significant drop in European imports.

<Q>: So 200 million or less on a quarterly basis for the foreseeable future, I guess?

Jim Shepherd - Canfor Corp. - President and CEO

It is significantly down.

<Q>: Second question just on your expectations for stumpage coming off of the next quarter or two, if you can put any sort of magnitude on that through Q2 and Q3?

Jim Shepherd - Canfor Corp. - President and CEO

Hard to predict in part because of the, again, the new stumpage system but I do expect stumpage should come off slightly quarter over quarter. If I put \$1 to \$2 to it per cubic meter it's probably a safe place. I don't like to predict these things because it is hard to see what might happen, especially with the market dynamics but I think that would be my best number that I could use today -- \$1 to \$2.

Operator

Steven Good of Searock Capital.

<Q>: I was wondering given the proceeds from the lumber rebates if there are any product lines or geographic areas that you might consider expansion whether OSB or other lines that you might consider capacity expansion or purchase?

Jim Shepherd - Canfor Corp. - President and CEO

We have interest in temps to grow the Company in a geographic diverse manner. Mitigating any risks that we might find over fiber supply, currency, infrastructure costs and so forth and the balance of products to our customer base so not only geographic diversity but also product diversity. So a balance of lumber panels and engineered wood in the longer term would be of interest to Canfor. So kind of a general statement but that's more or less the way we are looking at the world today.

Operator

Paul Quinn of Salman Partners.

<Q>: I had a couple of questions. One, just on the export opportunities you mentioned Asian shipments are up 6% on it, year over year. What percentage of sales is going into Asia and in terms of Europe what's -- is that an export opportunity for you?

Jim Shepherd - Canfor Corp. - President and CEO

When we talked to volumes or capacity at Canfor roughly 10% was the export business. Mainly Japan but China and Korea and Taiwan to a certain degree so when I say 10% it is primarily to Asia.

In Europe right now, we are in the throes of trying to put together a program that would entail European sizes that will go primarily into the UK market and so we expect by the end of the second quarter to have some business slowing over to Europe on the basis of pricing and that opportunity. So small but we will see how it goes over the next couple of quarters.

<Q>: Obviously you are looking for operational improvements specifically and wood product division. What -- I guess this question is for Patch. What specific areas are you targeting?

Patch Bonkemeyer - Canfor Corp. - SVP-Operations

There are several areas we're targeting. In this day and age you have got to be looking at cost control and we've got initiatives out there with suppliers we've got initiatives in terminals, in mills with usage and you've got to be controlling your costs. We've also got a very, very good -- some very good results with the main sigma effort that we have got going as a trial basis up in the PG area where we have seen some excellent results. We have got initiatives going in our woodlands operations to reduce our delivered log costs.

This is the type of environment, just the economic environment will drive you to making -- to becoming as lean a manufacturer as good a manufacturer as you can be. Combine that with the pine beetle and we have to step our performance of them in another notch as we try to squeeze even more out of a log that is deteriorating.

So in the end I think we are going to come out of this and BC as a whole not just Canfor but all of the folks in BC are going to come out of this as the top manufacturers I think in -- if not in North America maybe even the world because of the tough markets we are in, combined with having to deal with (technical difficulties).

So as we get better at that I think you are going to see efficiencies increase. You are going to see great outturns that are better. You are going to see costs reduced. We are going after every one of those parameters.

<Q>: Maybe a question back to Jim. Just on overall U.S. housing we have seen some bad stats as of late and I have been trying to listen into a couple of homebuilders on their calls. Do think the market has bottomed or where do you see the bottoming?

Jim Shepherd - Canfor Corp. - President and CEO

I think we are seeing a combination of factors not to overplay weather but weather is a big part of it. Building is just not happening because of winter and some of our customers have either learned from the past or just made a decision we are not going to build inventories. We are just going to stop right now; and we will build a house when we have got the order as opposed to speculating it.

So I don't think housing is going to drop much lower than statistics are showing right now. In fact I hope as the course of the year progresses we might see some improvement certainly in the numbers. Our expectation always has been around between 1.6 and 1.8 housing starts for the year 2007. And it's a guess like everybody else has out there, but I opaque it is going to get much worse than what is being reported right now.

<Q>: Lastly, I'd guess just seeing the great operational improvements on the Canfor pulp business I guess, any plan to spin off wood products or panels?

Jim Shepherd - Canfor Corp. - President and CEO

Spin it off? No that's our business. So is the question around getting more out of pulp or is it just getting out of the business?

<Q>: No, the question is more about getting productivity up.

Jim Shepherd - Canfor Corp. - President and CEO

One of the -- I wish the numbers could be better demonstrating it. Certainly for Canfor we've made a lot of improvements in the mills. Not to put all of our woes on the pine beetle but every time we seem to take a step forward we ended up with some deterioration there to take a step back, and whether it's on lumber recovery or productivity that has been an element that has not shown any improvement in the mills. And (indiscernible) it may be a lot of improvements in Canfor's mills and we will continue that.

Operator

Pierre Lacroix of Desjardins Securities.

<Q>: Just one question. This is with regard to the pulp partnership. Any update on your strategic interest in the partnership longer term?

Jim Shepherd - Canfor Corp. - President and CEO

Our current thinking is to maintain our 50% ownership.

<Q>: So you are happy with that business and you keep on that business?

Jim Shepherd - Canfor Corp. - President and CEO

Yes.

Operator

Mark Bishop of RBC Capital Markets.

<Q>: Two follow-up questions. Just one on chip pricing, again, Scott. Just curious, the price you quoted that does not include the bonus payment. Is that correct?

Scott Wilson - Canfor Corp. - VP - Finance and CFO

Yes. That is probably right. The realized price which would include sort of a proximity bonus would be up toward \$70 as opposed to mid-60s or lower 60s.

<Q>: That's sort of applying an average across all your chip sales for the bonuses. Is that right?

Scott Wilson - Canfor Corp. - VP - Finance and CFO

That would be right; yes.

<Q>: The second question is for Patch. Just curious if you to give us a bit of a snapshot on whatever the situation is like I guess particularly in your Northern mills? I know you had some recent management turnover. Are you still concerned about losing labor to the oilpatch, and other industries and what pain you do to retain people in this tough environment?

Patch Bonkemeyer - Canfor Corp. - SVP-Operations

First I will talk about the management teams. We have got a very good management team when you take a look at Fort Nelson right now you are right. We do have some new people of their and we are seeing some good results from those folks. I guess my belief is that it is 90% people and we have got good leadership up there and I think people like to work for good leaders and I think we'll see some stability come out of that.

On the other side of that is we are really seen less pull from the oilpatch this year than we did a year ago. Actually for the first time in a long time you can get a hotel room in Fort Nelson. We don't see a lot of 'help wanted' signs up. We know there is -- and actually have had the numbers quoted to me but I'm not going to quote them because I will miss him on the number of new rigs that are out looking for oil it's down significantly from what it was a year ago.

So the pressure has started to come off. I don't think we have seen it really hit on the tradespeople. I think it will be a lag there with before with some of the pressure on our trades folks comes off. Those are the ones that typically get the most offers and you see the most pull to go over into the oilpatch.

You combine that with the fact that cost of living over in the oilpatch over in Alberta has really gone up. So if they want to sell a house they down in the interior and move up there, they are going to pay a whole lot more from a living expense standpoint. A lot of them aren't willing to do that so the pressure is not off completely but we are seeing it relax some, if that answers your question.

Operator

(OPERATOR INSTRUCTIONS). **Robert Delaney** of Bloomberg News.

<Q>: This question is for any of the executives. I just wanted to get a better handle on effect of the CN rail strike. That is, at this point what products are being -- the transport of which products are being mostly affected? Is it more raw materials coming in or is it more products moving out? Is there any kind of percentage you can give us at this point? And any outlook on how this might affect earnings for 2007? Thank you.

Jim Shepherd - Canfor Corp. - President and CEO

I will pass it over to Ian McIver in terms of level of service but just to say, upfront that all products are being affected and there is now some sense of our supply-side whether it is on petroleum products or chemicals to facilities. So, Ian, can you give some sort of estimate of level of service?

Ian McIver - Canfor Corp. - General Manager-Supply Chain.

We are finding that we are getting anywhere from 25% to 40% of our outbound supply being supplied on a weekly basis right now. It just depends on which mill it is and how hard it is for CN to get cars to that particular facility. I don't have any comment really on what that means in the long run. We have obviously built a bit of inventory at our mills which will take us some time to clear that off but it will be two to three months, we think, after the rail strike ends before we can clear that inventory back through the system.

Jim Shepherd - Canfor Corp. - President and CEO

In terms of expectations of the quarter, it is too early to say.

Operator

Gordon Hoekstra from The Prince George Citizen.

<Q>: I have several questions. Just wondering on the -- Jim, you mentioned several times about the market-based stumpage system. Are you saying that you think that the stumpage should be lower right now as a result of deteriorating beetle fiber base?

Jim Shepherd - Canfor Corp. - President and CEO

What I want to see is the intent of the stumpage system to be the reality. So market principles drive value. And who is to predict what the market of timber should be because it is all of the question of the seller and a buyer. Right now we have seen the deterioration of fiber quality as well as very low lumber price.

So you would infer that stumpage should come down because the market is saying it should come down. But I'm going to stick to the phrase that market principles have to drive this whole thing and there is still a lag in getting to what I would call the true market.

<Q>: You mentioned several times about some of the issues you are having with the beetle timber, putting it through your mills. Is it actually costing you money in terms of what it is a little bit of different output in grade and lumber recovery, productivity? That kind of thing?

Jim Shepherd - Canfor Corp. - President and CEO

Yes.

<Q>: Do you have any sense about what kind of magnitude that is?

Jim Shepherd - Canfor Corp. - President and CEO

It can range, depending on the mill and the tools that we have within the mill. It can range, depending on the location. A tremendous amount of work has gone into the different aspects of the beetle. Is it different from a small to big tree? In fact I heard a phrase for the first time a couple of weeks ago it is called newer debt and so a tree that has been impacted by the beetle to X number of years versus Y number of years can have an impact. So it is all over the map but not overall. The impact on productivity and cost is negative.

<Q>: Are there either process or technological changes that you could bring into the mills to mitigate that?

Jim Shepherd - Canfor Corp. - President and CEO

We are working on that. At the end of the day we have always taken on challenges and found ways around it. So whether it is in processing equipment and how you handled the log and the lumber, how you dry it, how you measure the quality. So there's a lot of things that can be done but like everything it's new to everybody so we are learning as we go here.

A year or two from now we will be much better at it. The question is how do we make the right next moves, and do so in a very difficult market? But overall I do believe instinctively that we will find ways of fighting back with the (indiscernible) quality and first thing for us to do is to have more knowledge and information about it.

<Q>: Do you have any kind of a capital plan targeted at that yet in sort of a North Central BC area?

Jim Shepherd - Canfor Corp. - President and CEO

We do have monies allocated to certain projects and that is distributed around the company. So I guess the direct answer to your question is that we do have capital that we will put back into the mills and in part to deal with the beetle problem but, again, it comes back to more information needed in some cases. And in other cases just making sure the technology is the right technology. So we will do it and hopefully we will make the right decisions at the right time.

<Q>: Does it mention and I sort of missed it, I think Patch mentioned something about in the PG area Lean Sigma. I just have no idea what he was talking about.

Jim Shepherd - Canfor Corp. - President and CEO

I will let Patch answer that.

Patch Bonkemeyer - Canfor Corp. - SVP-Ops

Yes, there's -- you look at the industry, I guess our industry which is forest products hasn't embraced the techniques of Lean Sigma as much as a lot of other companies have -- including Motorola, GE and some of the other companies that are out there. But it is a method I think that was originally, I guess, developed in Japan. It involves understanding of processes. It understands getting statistical tools into your processes so you can make better decisions. It involves team problem-solving with folks who are better able to solve those problems which are the people on the floor. Teaching them new techniques, new tools and putting those in place the way that can save us money and drive cost out of the system. It is specifically focused at driving cost out of the system. We have seen -- we had a bit of a small scale pilot from a corporate standpoint for a few years. It has been very successful. It has been successful to the point where we have mills that have been calling actually asking for help to expand that process; so that the mills can find improvements in areas where they are debottleneck, to debottleneck areas and to get cost down.

So we made a decision to get into it in a bigger way. We are going to do it in a controlled fashion. We started in the PG area. We've got some good results since we started focusing in the PG area late last fall; and as we do continue to see those results roll in we will be rolling it out to the other regions South down towards (indiscernible) and then on up North -- McKenzie, Fort St. John, Chat One and even over to the West with Plateau, (indiscernible) Houston and as the future comes along. But it is a very successful program for us and it has shown some great results.

Operator

(OPERATOR INSTRUCTIONS). There are no further questions registered at this time. I would now like to turn the meeting back over to Mr. Jim Shepherd. Please go ahead.

Jim Shepherd - Canfor Corp. - President and CEO

Thank you, Operator, and I once again thank everybody for taking the time and interest in Canfor. Always welcome to give us a call or visit will we do so the more information you have, the better understanding you have of Canfor. And once again appreciate your interest and we will say goodbye for now.

Operator

Thank you. The conference has now ended. Please disconnect your lines at this time. Thank you for your participation and have a great day.