

**Canfor Corporation and Canfor Pulp Products Inc.  
Quarter 2, 2018  
Financial Performance Overview**



Presented by:

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- The presentation and answers to questions today contain forward-looking statements which involve known and unknown risks, uncertainties and other factors that may cause actual results to be materially different from any future results, performance or achievements expressed or implied by such statements. Factors that could have a material impact on any future oriented statements made herein include, but are not limited to: general economic, market and business conditions, product selling prices, raw material and operating costs, foreign exchange rates, interest rates, changes in law and public policy, the outcome of trade and labour disputes, and opportunities available to or pursued by the Company.
- For further details on these factors and our assumptions and applicable risks and uncertainties, please refer to Canfor Corporation's and Canfor Pulp Products Inc.'s Annual Reports for the year ended December 31, 2017 and Management's Discussion and Analysis for the six months ended June 30, 2018.

**Canfor Corporation**  
**Q2 2018 Review: Items Impacting Earnings Comparability**



(millions of dollars, except for per share amounts)	Q2 2018		Q1 2018	
	\$	\$/Share	\$	\$/Share
Shareholder net income, as reported	\$ 169.8	\$ 1.32	\$ 112.2	\$ 0.87
Non-operating / unusual items (after-tax, net of non-controlling interests)				
Countervailing and anti-dumping duty deposit expense, net	\$ 37.7	\$ 0.29	\$ 25.5	\$ 0.20
Foreign exchange loss on long-term debt and duties receivable	\$ 1.0	\$ 0.01	\$ 1.9	\$ 0.01
Loss on derivative financial instruments	\$ 5.6	\$ 0.04	\$ 5.8	\$ 0.05
Net impact of above items	\$ 44.3	\$ 0.34	\$ 33.2	\$ 0.26
Shareholder net income, as adjusted	\$ 214.1	\$ 1.66	\$ 145.4	\$ 1.13

# Canfor Corporation Sales and Operating Earnings Summary



(millions of dollars unless otherwise noted)	Q2 2018	Q1 2018	Variance
Gross Sales	\$ 1,459.5	\$ 1,233.5	\$ 226.0
Reported Operating income (loss) by segment:			
Lumber	\$ 203.4	\$ 125.9	\$ 77.5
Pulp and Paper	\$ 85.4	\$ 85.1	\$ 0.3
Unallocated and Other	\$ (6.7)	\$ (7.2)	\$ 0.5
<b>Total operating income, as reported</b>	<b>\$ 282.1</b>	<b>\$ 203.8</b>	<b>\$ 78.3</b>
<b>Total operating income, as adjusted<sup>1</sup></b>	<b>\$ 333.8</b>	<b>\$ 238.7</b>	<b>\$ 95.1</b>
Average exchange rate (US\$ per C\$1.00)	\$ 0.774	\$ 0.791	\$ (0.017)

Reported operating income (loss) before amortization			
Lumber	\$ 251.3	\$ 171.5	\$ 79.8
Pulp and Paper	\$ 105.1	\$ 104.3	\$ 0.8
Unallocated and Other	\$ (6.7)	\$ (7.2)	\$ 0.5
<b>Total operating income before amortization, as reported</b>	<b>\$ 349.7</b>	<b>\$ 268.6</b>	<b>\$ 81.1</b>
<b>Total operating income before amortization, as adjusted<sup>1</sup></b>	<b>\$ 401.4</b>	<b>\$ 303.5</b>	<b>\$ 97.9</b>

<sup>1</sup> Adjusted for countervailing and anti-dumping duty deposits expensed for accounting purposes (expense of \$51.7 million in Q2 2018 and \$34.9 million in Q1 2018)

## Canfor Corporation Lumber: Q2 2018 vs. Q1 2018



(millions of dollars unless otherwise noted)	Q2 2018	Q1 2018	Variance
Sales	\$ 1,063.2	\$ 873.9	\$ 189.3
Operating income before amortization, as reported	\$ 251.3	\$ 171.5	\$ 79.8
Operating income, as reported	\$ 203.4	\$ 125.9	\$ 77.5
Operating income, as adjusted	\$ 255.1	\$ 160.8	\$ 94.3
Average SPF 2x4 #2&Btr lumber price in CDN\$	\$ 773	\$ 649	\$ 124
Average SYP East 2x4 #2 lumber price in US\$	\$ 589	\$ 566	\$ 23
Production - SPF lumber (MMfbm)	948	889	59
Production - SYP lumber (MMfbm)	367	351	16
Shipments - Canfor-produced SPF lumber (MMfbm)	970	851	119
Shipments - Canfor-produced SYP lumber (MMfbm)	380	345	35

### Adjusted operating income up \$94 million from Q1

- Reported Q2 results include net duty expense of \$52 million at effective rate of 14.94% (Q1 – net duty expense of \$35 million at 14.34%). Q2 operating income, adjusted for duties, up \$94 million from Q1 at \$255 million.
- Western SPF and SYP sales realizations up significantly from the previous quarter; benefiting from solid demand & supply constraints**
  - WSPF sales realizations: Significantly higher US-dollar WSPF lumber prices and, to a lesser extent, the 2% weaker Canadian dollar more than offsetting increased duty deposits. Offshore sales realizations seeing more modest price increases.
  - SYP sales realizations: Modest increase in SYP East 2x4 #2 price, more pronounced price increases in 2x6 and 2x10 #2 dimensions reflecting solid seasonal demand.
- Lumber production moderately higher than prior quarter** – Productivity gains in Western Canada following extreme winter weather in Q1, increased production reflecting capital investment in US South, fewer statutory holidays in current quarter.
- Lumber shipments well up from prior quarter** – Shipments up 13% reflecting solid demand and drawdown of inventory as transportation networks slowly improved through the quarter.
- Unit manufacturing costs up slightly** – Per unit impact of gains in productivity and stable log costs in the US South, more than offset by market-based stumpage increases and higher purchased wood costs in Western Canada.

## Canfor Pulp Products Inc. Sales and Operating Earnings Summary



(millions of dollars unless otherwise noted)	Q2 2018	Q1 2018	Variance
<b>Gross Sales</b>	\$ 396.4	\$ 359.7	\$ 36.7
Operating income (loss) by segment:			
Pulp	\$ 86.6	\$ 86.4	\$ 0.2
Paper	\$ 1.5	\$ 2.9	\$ (1.4)
Unallocated	\$ (2.7)	\$ (4.2)	\$ 1.5
<b>Total operating income</b>	\$ 85.4	\$ 85.1	\$ 0.3
<b>Net income, as reported</b>	\$ 63.0	\$ 64.3	\$ (1.3)
Operating income (loss) before amortization by segment:			
Pulp	\$ 105.2	\$ 104.5	\$ 0.7
Paper	\$ 2.6	\$ 4.0	\$ (1.4)
Unallocated	\$ (2.7)	\$ (4.2)	\$ 1.5
<b>Total operating income before amortization</b>	\$ 105.1	\$ 104.3	\$ 0.8
Average NBSK pulp list price delivered to China - US\$	\$ 910	\$ 910	\$ -
Average NBSK pulp list price delivered to China - CDN\$	\$ 1,176	\$ 1,150	\$ 26
Production - Pulp (000 mt)	297	312	(15)
Shipments - Pulp (000 mt)	329	310	19

### Pulp operating income up \$1 million to \$87 million in Q2

- **Increased pulp sales realizations:** Reflecting continued strong global pulp demand, China US-dollar NBSK prices holding at near-record highs through quarter, 2% weaker Canadian dollar .
- **Pulp shipments up 6% from the previous quarter** – Driven by solid market demand, higher offshore shipments following improvement in shipping constraints.
- **Unit manufacturing costs moderately increased compared to Q1** – Seasonally lower energy prices and usage partly offsetting market-driven increases in fibre costs and higher unit costs associated with scheduled maintenance outages in quarter.

### Paper operating income down \$1 million to \$2 million in Q2

- Improved paper unit sales realizations and weaker Canadian dollar offset by increased slush pulp costs linked to higher NBSK pulp prices.