

## **FINAL TRANSCRIPT**

### **Canfor Corporation**

### **Canfor and Canfor Pulp Q3 2017 Results Conference Call**

Event Date/Time: October 23, 2017 — 11:00 a.m. E.T.

Length: 27 minutes

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



## CORPORATE PARTICIPANTS

**Don Kayne**

*Canfor Corporation — Chief Executive Officer*

**Alan Nicholl**

*Canfor Corporation — Chief Financial Officer*

**Peter Hart**

*Canfor Corporation — Vice President of Pulp Sales*

**Wayne Guthrie**

*Canfor Corporation — Senior Vice President of Lumber Sales and Marketing*

## CONFERENCE CALL PARTICIPANTS

**Paul Quinn**

*RBC — Analyst*

**Hamir Patel**

*CIBC — Analyst*

**Sean Steuart**

*TD — Analyst*

**Mark Wilde**

*BMO Capital Markets — Analyst*

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



## PRESENTATION

### Operator

Good morning, ladies and gentlemen. Welcome to the Canfor and Canfor Pulp Third Quarter Analyst Call. A recording and transcript of the call will be available on the Canfor's website.

During this call, Canfor and Canfor Pulp's Chief Financial Officer will be referring to a slide presentation that is available in the Investor Relations section of each company's website.

Also, the companies would like to point out that this call will include forward-looking statements, so please refer to the press releases for the associated risks of such statements.

I would now like to turn the meeting over to Mr. Don Kayne, Canfor and Canfor Pulp's Chief Executive Officer. Please go ahead, Mr. Kayne.

### **Don Kayne** — Chief Executive Officer, Canfor Corporation

Yeah. Thank you, Operator, and good morning, everybody. Thank you for joining the Canfor and Canfor Pulp Q3 2017 Results Conference Call this morning.

I'll make a few comments before I turn things over to Alan Nicholl, our Chief Financial Officer for both Canfor Corporation and Canfor Pulp. Alan will provide a more detailed overview of our performance in Q3, and then we will take questions.

Joining Alan and I today to answer your questions are Brett Robinson, the President of Canfor Pulp; Peter Hart, our Vice President of Pulp Sales; Wayne Guthrie, Senior Vice President of Lumber Sales and Marketing; and Stephen Mackie, Senior Vice President of our Canadian Operations.

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



First of all, I'd like to acknowledge Wayne Guthrie, as this is his last analyst call. He will be retiring at the end of the year after 33 years with Canfor. We will truly miss Wayne for his many contributions over so many years, but being the true leader that he is, he is leaving us with a strong sales organization with lots of depth in our sales and marketing group.

Kevin Pankratz will be taking over the leadership of our wood product sales and marketing group starting in January, and Kevin has been with Canfor since 2005, most recently as Vice President of Sales and Marketing, and has 27 years of experience in markets around the world.

As you are aware, the third quarter brought significant challenges in the form of natural disasters. BC recorded one of the worst fire seasons on record and two significant hurricanes in the United States. Canfor was somewhat fortunate to avoid significant damage or destruction to our operations, and continued to run almost uninterrupted throughout the quarter.

Taking a look at our results, beginning with Canfor Pulp, the Company generated solid returns in spite of a stronger Canadian dollar and a planned outage of 10,000 tonnes at Intercon. Markets were relatively stable in the early part of the quarter, then began increasing in early August.

The late-quarter improvement in pricing and demand was a result of a number of factors, including supply disruptions at existing facilities, fall maintenance, and Chinese import restrictions on recycled paper. We expect these pricing increases will have a positive impact on returns during Q4.

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



While these factors are positive for market prices in the near term, we continue to be somewhat cautious about new hardwood and softwood supply expected to come on the market in late 2017 and into 2018.

Moving to the lumber business. Our operations ran well in the quarter despite some challenges in British Columbia with log procurement, mostly related to the forest fires. North American demand continues to be steady in both new home construction and repair and remodel markets. Steady demand in North America, combined with supply disruptions from British Columbia and strong offshore markets, resulted in prices climbing steadily in Q4.

Our key offshore markets continued to be solid in the third quarter, with shipment volumes to China and Japan remaining positive and on plan. As you are aware, countervailing duties were temporarily suspended in August. While we have not been subject to countervail duties since that time, we have continued to pay anti-dumping duties.

The final countervail duty determination deadline has been extended to November 14th. The ITC final decision typically takes 45 days on top of this, which is expected to result in a final duty rate effective in January 2018. We've had excellent support and collaboration from the Canadian federal and provincial governments, and know that our federal minister is working on negotiating a fair agreement that will bring certainty to the industry.

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



Finally, we have announced a new organic capital program of 350 million board feet, and are currently evaluating a greenfield construction project. Combined, these projects would increase our US Southern Yellow Pine capacity by 600 million board feet, or approximately 40 percent.

We strongly believe in a long-term positive fundamentals for fibre, people, and markets in the US South region, and are excited about expanding our capacity there further.

I will now turn it over to Alan to provide an overview of our financial results.

**Alan Nicholl** — Chief Financial Officer, Canfor Corporation

Thank you, Don, and good morning, everyone. My comments this morning will focus principally on our financial performance for the third quarter of 2017 by reference to the previous quarter. Full details of our results are contained in the Canfor Pulp and Canfor news releases, both of which were issued on Friday of last week.

As always, you'll find an overview slide presentation on both the Canfor and Canfor Pulp websites in the Investor Relations section under Webcasts. This presentation highlights consolidated and segmented results, and I'll be referring to it during my comments.

For the third quarter of 2017, Canfor reported shareholder net income of \$66 million, or \$0.51 a share, down from net income of \$81 million, or \$0.61 a share reported for the second quarter, and up from net income of \$51 million, or \$0.38 a share reported for the same quarter of 2016.

On Slide 3 of our presentation we highlight various nonoperating items net of tax and noncontrolling interest which affect the comparability of our results between the respective quarters.

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



In the third quarter, these items totalled \$18 million and included a \$24 million expense related to countervailing and anti-dumping duty deposits, a \$4 million foreign exchange gain on US dollar-denominated long-term debt, and a \$2 million reversal of a previously recorded closure provision at our Canal Flats sawmill.

After adjusting for the aforementioned items, shareholder net income for Q3 was \$84 million, or \$0.65 a share, compared to adjusted shareholder net income of \$104 million, or \$0.78 a share for the second quarter.

As highlighted on Slide 5 of our presentation, the lumber segment recorded operating income of \$93 million for Q3, down \$80 million from the previous quarter. The decrease principally reflected a 7 percent stronger Canadian dollar and a decline in Southern Yellow Pine commodity lumber prices, combined with higher log costs to the BC Interior, largely reflecting the weather- and fire-related challenges in the region. These factors were somewhat mitigated by higher US dollar Western SPF prices.

Lumber shipments were up slightly compared to the previous quarter, for the most part reflecting a 6 percent increase in Southern Pine shipments, while total lumber production was in line with the prior quarter, despite the various weather- and fire-related challenges.

Canfor's pulp and paper segment comprises the results for Canfor Pulp Products Inc. The Company reported net income of \$13 million, or \$0.19 a share compared to net income of \$20 million,

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



or \$0.31 for the second quarter, and net income of \$22 million, or \$0.34 a share for the third quarter of 2016.

As you'll see on Slide 6 of our presentation, our results reflect the significant impact of the stronger Canadian dollar on average pulp and paper US sales realizations, which more than offset the benefit of a decline in scheduled maintenance outages.

Global softwood pulp prices bottomed out through the first part of the quarter before rebounding towards the end of August, with the net result that there was no change in quarter-over-quarter US dollar prices. The benefits from the positive price momentum seen in September will be largely realized in the fourth quarter.

Pulp shipments were up 10 percent in the third quarter, reflecting the decline in scheduled maintenance outages from the previous quarter, partially offset by a 14,000 tonne vessel slippage into October, which has subsequently shipped.

Unit manufacturing costs improved from the previous quarter, mostly due to the lower scheduled downtime, and to a lesser extent, seasonally lower energy costs.

Operating income for the paper segment in Q3 was \$5 million, down \$2 million from the previous quarter, with the stronger Canadian dollar again being the major factor.

Capital spending in the third quarter totalled \$58 million and included \$37 million in the lumber business and 19 million in Canfor Pulp. Our 2017 capital spending is currently projected to be

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



approximately \$175 million for Canfor and \$60 million for Canfor Pulp, excluding capitalized major maintenance costs.

Looking out to 2018, we currently anticipate higher capital spending for lumber to be in the region of \$240 million, reflecting the organic growth that Don referred to previously, and about \$90 million for pulp, reflecting mostly the spending on the two recently announced energy projects at Northwood and Taylor and on a new ERP implementation.

Consistent with the prior quarters, on Friday Canfor Pulp's Board of Directors approved the continuance of a quarterly dividend of \$0.0625 per share for the third quarter.

Also in the third quarter of 2017, Canfor spent \$75 million on its share repurchase program, purchasing approximately 3.5 million of its common shares at an average price of \$21.27. Canfor Pulp repurchased 576,000 shares in the period at an average price of \$12.67 per share for a total investment cost of \$7.2 million.

At the end of the third quarter, Canfor, excluding Canfor Pulp, had net debt of \$183 million, with available liquidity of \$358 million. Canfor Pulp had net cash of \$31 million, with available liquidity of 101 million. Net debt to total capitalization, excluding Canfor Pulp, was 10.2 percent, and on a consolidated basis, 7.6 percent.

And with that, Don, I'll turn the call back to you.

**Don Kayne**

Okay. Thanks, Alan. So, Operator, we're now ready to take questions from the analysts.

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »

---

**Q&A****Operator**

Thank you. We will now take questions from financial analysts. If you have a question, please press \*, 1 on your telephone keypad. If you are using a speakerphone, please lift your receiver and then press \*, 1. If at any time you wish to cancel your question, please press \*, 2.

Please press \*, 1 now if you have a question. There will be a brief pause while participants register for questions. Thank you for your patience.

And your first question comes from Paul Quinn from RBC. Paul, please go ahead.

**Paul Quinn — RBC**

Yeah. Thanks very much. Good morning, guys.

**Don Kayne**

Good morning.

**Paul Quinn**

Just wondering if you could give us a little bit more detail on the accelerated CapEx spend in the US South wood projects you're—what projects and what mills where you're looking at upgrading?

**Don Kayne**

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



Yeah. I guess—yeah, Paul, it's Don—yeah, for sure it's something we've been working on for some time because we recognize there's some opportunities there in the south to increase some of the spending in terms of our organic capital. But it really comes down to our allocation process, Paul. And as you know, we've kept an eye on debt here significantly for the last several years trying to get our balance sheet in good shape, which we think it is today.

And as presented, through for a bunch of reasons, mostly due to some of the M&A activity that's out there, we think some of the opportunities are pretty expensive. So we really focused hard on trying to maximize the production out of our own facilities, and so we've done an evaluation. So there's probably three or four mills that we think there's a significant opportunity in the sawmill and in some cases in the finishing end and also on the kiln side to spend additional dollars. So we've ... that's really how we're focused on that.

And then also eventually here, as we mentioned in the press release, talking about potentially for a greenfield project, which we'll be evaluating now and making a decision on at the end of January. But it really comes down to really looking hard at our priorities now that we have our balance sheet in good shape. And fortunately, this allows us to really take an increased look there at organic, which we think is probably one of the best opportunities that we have.

**Paul Quinn**

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



Okay. And just I think we've talked in the past about expansions in the US South, and it's I think the focus is, for you guys, has always been on M&A. I guess the change in direction to potentially greenfield is because of the expensive nature of the M&A transactions right now?

**Don Kayne**

Yeah. For the most part. I mean clearly there's still ... it's still on the radar screen, Paul, on M&A because there's the odd opportunity out there. But frankly, we believe that between organic and then certainly with the cost increases on the M&A side potentially, it's made the greenfield more attractive. So that's why we've put a lot more effort into evaluating the greenfield side as well. So if you had to rank them now, it's probably organic, greenfield, and then M&A probably a close third.

**Paul Quinn**

Okay. And then just switching over to pulp, realizations sort of seemed to lag in the quarter and I expected a little bit more out of it, but it seems like quite a bit was lost, I guess, on that 14,000-tonne vessel that got moved in October, so that explains some of it. You still sound ... you sound optimistic on Q4, but cautious going forward. And you sounded—I think you guys have been cautious on pulp for the last few years, despite robust markets. I mean I've been in the same camp with you and we've both been wrong, but what—besides the capacity additions, are you seeing something different out there that gives you caution in the medium and long term?

**Don Kayne**

Yeah. Maybe I'll let Peter comment on that, but sometimes I think caution's pretty good.

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



**Peter Hart** — Vice President of Pulp Sales, Canfor Corporation

Well, certainly the fourth quarter is going to be a strong quarter for us, and take us into 2018 at a higher starting point than we would have envisioned a few months ago. So as we look at 2018, we would expect at some point in the year to have some downwards momentum, but having said that, the average price for next year we'd be looking forward to higher than we would have thought a few months ago.

**Paul Quinn**

Okay. That's great. And just last question on CapEx spending; you outlined 2018. Can we assume the same sort of levels for 2019 as well?

**Don Kayne**

Go ahead.

**Alan Nicholl**

Well, I think as a general statement, yeah, fairly close in 2019. Pulp maybe a little lower than the 90, but reflecting the projects that I outlined earlier, yeah. So fairly close for 2019 would be my guess.

**Paul Quinn**

Great. That's all I had. Thanks, guys.

**Don Kayne**

Thanks, Paul.

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »

**Operator**

Thank you. Your next question comes from Hamir Patel from CIBC. Hamir, please go ahead.

**Hamir Patel — CIBC**

Hi. Good morning.

**Don Kayne**

Good morning.

**Hamir Patel**

Don, could you speak to you some of the factors you're considering when deciding where to position this potential greenfield? Are there certain regions in the south where maybe you want to expand your platform? And where ... from a wood basket perspective, where do you sort of see the most attractive market right now?

**Don Kayne**

Yeah. Well, I think overall the southeast to be general because we haven't landed on a specific state yet, or a city, or anything like that at this point. But clearly as we always have, and it goes for pretty much everything we do, we look at two things. Number one is fibre, quality of the fibre and availability of the fibre, and the competitiveness of the fibre on a long-term basis. And then also the other area is people, right? Those would be the two key factors, leaving aside that in terms of distances to tidewater because we think down the road here there's going to be more and more opportunities for export, would be critical. Those would probably be the three key areas that we

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



would, assuming that we're in an area—which the southeast is anyways—very positive for lumber consumption period.

So I mean, we're—and so we're not obviously concerned about customer base or any of those sorts of things. But the other three things, fibre, people, and access to tidewater, I think would be critical, those three.

**Hamir Patel**

Great. Thanks. That's helpful. And if you do go ahead, what's the sort of typical timeline you'd expect to completion from when you announce something? And presumably what's the sort of capital spend for greenfield at the moment?

**Don Kayne**

So we haven't announced anything around the capital spend yet. I mean, I guess a good guidance might be, though, the GP mill that you heard recently announced, and I think that was around 100 million, that's probably in the hunt, Hamir. And then in terms of timing, we expect to make a decision sometime in Q1. And then if you—assuming that's done at the end of Q1, it's probably 12 months after that we would expect to be operational.

**Hamir Patel**

Great. And just the final question I have is on the lumber business. We've been seeing reports that China's sort of cracking down on some of their polluting manufacturing assets. How

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



permanent do you think that is? And what do you think that opportunity is for North American lumber exporters?

**Don Kayne**

Yes. Maybe, Wayne, why don't you—you're on top of that—why don't you give Hamir a bit of an update there?

**Wayne Guthrie** — Senior Vice President of Lumber Sales and Marketing, Canfor Corporation

I think, Hamir, we're going to see some of those smaller operations that were converting logs into lumber that are going to be permanently eliminated. So I think that is long term more opportunity for all lumber strippers into China, including Canada. So I think that's ... I think it's a long-term trend, I think it's here to stay, and I think it's positive.

**Hamir Patel**

Wayne, any guess on maybe how much sort of board feet's coming out of those facilities?

**Wayne Guthrie**

Oh, you know what? I don't have—I'm not even going to guess, but it's material. Remember, though, it's an offset, right? So those logs will likely get converted into lumber somewhere else; maybe on the Russian side of the border, then come into China. So there's a bit of an offset there, but short term it's certainly created an opportunity for SPF.

**Don Kayne**

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



I think you're seeing two, Hamir and Wayne, in terms of on the panel side over—in domestic panel use in China; on the furniture side, a lot more conversion from some of the panel uses for furniture over to solid wood as well. And if that's what you're referring to as well, I think that'll have an impact as well.

In terms of how much volume, I'm not sure, but it's positive for sure.

**Hamir Patel**

Great. Thanks. That's really helpful. That's all I had.

**Don Kayne**

Okay. Thanks, Hamir.

**Operator**

Thank you. Your next question is from Sean Steuart from TD. Sean, please go ahead.

**Sean Steuart — TD**

Thanks. A couple questions. I'll start with the pulp business. Alan, you referenced better unit costs, I guess, based on production with lower downtime this quarter. That didn't flow through to unit cost relief on the shipment side. Is that just the vessel delay? Maybe help reconcile, I guess, the lack of relief on the unit cost based on shipments this quarter.

**Alan Nicholl**

Yeah. I mean, Sean, I say it fundamentally depends on your kind of reference period, but as a general statement, our costs trended down. I appreciate where you're coming from. Maybe we can

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



chat about it afterwards. But the timing of the vessel slippage did have an impact, inventory movements did as well, and we saw a couple of other smaller factors.

But by far the biggest impact on our overall earnings was the foreign exchange impact, as I outlined. I mean, I would say as a general guidance with the maintenance behind us, we are expecting normal service to be resumed here in the Q4—

**Sean Steuart**

Okay.

**Alan Nicholl**

—period.

**Sean Steuart**

And just a follow-on question on the organic sawmill investment program in the south. If we're talking about, I guess, roughly 360 US per 1,000 board feet for the brownfield expansion, that would be bit of a discount to greenfield cost. And maybe it's not something you're prepared to answer yet, but can you give us any idea of the expected return differential of brownfield versus greenfield as you think about this growth plan?

**Don Kayne**

No, I think ... other than to say that I think you're right in your assumption that organic will be the least expensive of the two, we're not—at this point we're too early on in the evaluation of the

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



greenfield to give you any firm numbers yet. And certainly with—over the next while here we'll be in a better position to give you some more information on that, Sean.

**Sean Steuart**

Okay. Thanks, Don. That's all I had for now, guys.

**Don Kayne**

Okay. Yeah.

**Alan Nicholl**

Thanks, Sean.

**Operator**

Thank you. And your next question is from Mark Wilde from BMO Capital Markets. Mark, please go ahead.

**Mark Wilde — BMO Capital Markets**

Good morning, Don. Good morning, Alan.

**Don Kayne**

Good morning.

**Alan Nicholl**

Good morning.

**Mark Wilde**

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



Just to start off, I wondered if you could help us just with the quarter-to-quarter decline in duties? It would have seemed that maybe duties would be flat to up a little bit just with increased volume and the fact that you've got the anti-dumping duty in for the full period.

**Don Kayne**

Sure, Mark. Alan, why don't you ...

**Alan Nicholl**

Yeah. So I think essentially it comes down mostly I would suggest to timing. I think we got a benefit from some of the timing of customs paperwork, a bit of a lag there that gave us a bit of respite there. And I think the other thing that you're seeing is clearly some intentional allocation of our product offshore, and so we saw a bit more product going offshore as well, Mark.

**Mark Wilde**

Okay. All right. That's helpful. And then I'm just curious, Don, down south right now are you having—seeing anything in the way of kind of freight and logistics issues either going into the mills or going out of the mills? Because we're just ... we're hearing about a lot more trucking demand to kind of bring supplies into some of those hurricane-hit regions.

**Don Kayne**

Absolutely. Our trucking business down there is doing real well right now. But yeah, and as a result of the fact that we've had some significant issues with some of the rail lines down there in the south for delivery, absolutely. So we've been experiencing what you've been hearing for sure.

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



And a lot more demand on trucks. And of course, with our trucking business down there it's actually been pretty solid, so we maybe benefitted a bit from that and been able to assist some of our customers that have been having difficulties in receiving carloads of lumber, so—

**Mark Wilde**

Do you think that—

**Don Kayne**

But absolutely it's a real problem.

**Mark Wilde**

Do you think some of that's contributed to kind of the recent strength that we've seen in the lumber market, just the fact that it's more difficult for people to get it right now?

**Don Kayne**

I don't think so. And the reason I don't is our inventory levels really haven't changed. I mean, if anything, they've gone down significantly—well, in British Columbia significantly and the Southern Yellow Pine they've also gone down, though. So that would just be one indication maybe that still ... that takeaway is still happening.

**Mark Wilde**

Okay. All right. That's helpful. And then I wondered if you guys can just help us with sort of cadencing in these pulp price increases as we move to kind of—into the fourth quarter from the third quarter?

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »

**Don Kayne**

Yeah. For sure, Mark. Maybe, Peter, why don't you speak to Mark about that?

**Peter Hart**

Thank you. If you looked at the third quarter, the weakest two months in the market this year would have been June, July time frame. So June would, of course, be invoiced, especially for some Asian countries, in the months of July and early August. As you look at the September increase, which was the largest increase in the third quarter, that invoicing will go through for some markets starting in October, November.

So the higher prices in the third quarter and what we're seeing in the fourth quarter will be certainly realized all by November, December time frame.

**Mark Wilde**

Okay. And then I don't want to get too far in the weeds here, but I was kind of curious, the performance in paper was down. It's not a huge business for you, but my impression is that the kraft paper market has done nothing but get tighter over the last several months?

**Peter Hart**

The kraft paper market is healthy. I think what you're seeing there is more the effect of what Alan talked about on currency. We expect the paper market to continue to be healthy going forward.

**Mark Wilde**

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



Okay. All right. Then finally, I wondered if you could give us a little more colour on the Asian export market? You said volume was strong, but another thing you've talked about over time has been kind of improving the quality of the mix that you're exporting over there. So if you could talk about those issues, and also just what you're seeing in terms of export volumes coming out of the US South going into Asia?

**Don Kayne**

For sure. Wayne, why don't you give Mark an update on that?

**Wayne Guthrie**

Sure. So first of all on the Canadian business into Asia, it's been a little bit better than we expected. Japan has been stellar, both price-wise and volume-wise, and we expect that to continue right through Q4 and into next year. Very, very, very pleased with the Japanese business.

The China business is, as you say, the overall volume doesn't change much, but the value of what we're shipping there continues to move higher; significant year-over-year increase in price, but also in the value of the products that are going in there. So we continue to focus on higher value.

The Europeans have had great success in China in the last couple years and we've kind of drafted in behind that higher-value furniture component, and that future looks quite good in China, so going into 2018 should help a lot.

Yellow Pine will be very interesting to watch. We do a little bit of export business with Yellow Pine. And during that ... when Yellow Pine got a little soft there for the last quarter or so, all of a

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



sudden lots of opportunities start to show up around the world. So if other species continue to be stronger and continue to get stronger, which the fundamentals suggest they will, Yellow Pine's going to find itself quite competitive into China and into other markets in Asia. And we would expect that Yellow Pine export volume to grow over the next couple years, starting even in 2018.

**Mark Wilde**

All right. That's really helpful. Thanks very much, guys, and good luck in the fourth quarter.

**Don Kayne**

Thanks, Mark.

**Operator**

Thank you. There are no further questions at this time. I will now turn the call back over for closing remarks.

**Don Kayne**

All right. Thanks, Operator, and thanks to everyone that participated on the call today, and we appreciate it. And we'll look forward to talking to you at the end of Q4.

Have a good day.

**Operator**

Ladies and gentlemen, this concludes today's conference call. We thank you for participating, and we ask that you please disconnect your lines.

\*\*\*\*\*

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »