

**Canfor Corporation and Canfor Pulp Products Inc.
Quarter 3, 2018
Financial Performance Overview**



Presented by:

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Forward-Looking Statements



- 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 nine months ended September 30, 2018.

Canfor Corporation
Q3 2018 Review: Items Impacting Earnings Comparability



(millions of dollars, except for per share amounts)	Q3 2018		Q2 2018	
	\$	\$/Share	\$	\$/Share
Shareholder net income, as reported	\$ 125.3	\$ 0.98	\$ 169.8	\$ 1.32
Non-operating items (after-tax, net of non-controlling interests)				
Countervailing and anti-dumping duty deposit expense, net	\$ 31.1	\$ 0.25	\$ 37.7	\$ 0.29
Foreign exchange (gain) loss on long-term debt and duties receivable	\$ (0.7)	\$ (0.01)	\$ 1.0	\$ 0.01
Loss on derivative financial instruments	\$ 1.2	\$ 0.01	\$ 5.6	\$ 0.04
Net impact of above items	\$ 31.6	\$ 0.25	\$ 44.3	\$ 0.34
Shareholder net income, as adjusted	\$ 156.9	\$ 1.23	\$ 214.1	\$ 1.66

Canfor Corporation Sales and Operating Earnings Summary



(millions of dollars unless otherwise noted)	Q3 2018	Q2 2018	Variance
Gross Sales	\$ 1,323.3	\$ 1,459.5	\$ (136.2)
Reported Operating income (loss) by segment:			
Lumber	\$ 148.9	\$ 203.4	\$ (54.5)
Pulp and Paper	\$ 60.5	\$ 85.4	\$ (24.9)
Unallocated and Other	\$ (7.6)	\$ (6.7)	\$ (0.9)
Total operating income, as reported	\$ 201.8	\$ 282.1	\$ (80.3)
Total operating income, as adjusted¹	\$ 244.4	\$ 333.8	\$ (89.4)
Average exchange rate (US\$ per C\$1.00)	\$ 0.765	\$ 0.774	\$ (0.009)

Reported operating income (loss) before amortization			
Lumber	\$ 196.7	\$ 251.3	\$ (54.6)
Pulp and Paper	\$ 80.7	\$ 105.1	\$ (24.4)
Unallocated and Other	\$ (7.5)	\$ (6.7)	\$ (0.8)
Total operating income before amortization, as reported	\$ 269.9	\$ 349.7	\$ (79.8)
Total operating income before amortization, as adjusted¹	\$ 312.5	\$ 401.4	\$ (88.9)

¹ Adjusted for countervailing and anti-dumping duty deposits expensed for accounting purposes (expense of \$42.6 million in Q3 2018 and \$51.7 million in Q2 2018)

Canfor Corporation Lumber: Q3 2018 vs. Q2 2018



(millions of dollars unless otherwise noted)	Q3 2018	Q2 2018	Variance
Sales	\$ 994.9	\$ 1,063.2	\$ (68.3)
Operating income before amortization, as reported	\$ 196.7	\$ 251.3	\$ (54.6)
Operating income, as reported	\$ 148.9	\$ 203.4	\$ (54.5)
Operating income, as adjusted	\$ 191.5	\$ 255.1	\$ (63.6)
Average SPF 2x4 #2&Btr lumber price in CDN\$	\$ 630	\$ 773	\$ (143)
Average SYP East 2x4 #2 lumber price in US\$	\$ 488	\$ 589	\$ (101)
Production - SPF lumber (MMfbm)	922	948	(26)
Production - SYP lumber (MMfbm)	354	367	(13)
Shipments - Canfor-produced SPF lumber (MMfbm)	934	970	(36)
Shipments - Canfor-produced SYP lumber (MMfbm)	358	380	(22)

Adjusted operating income down \$64 million from Q2 to \$192 million

- Reported Q3 results include net duty expense of \$43 million at effective rate of 14.94% (Q2 – net duty expense of \$52 million at 14.94%)
- **Western SPF and SYP benchmark lumber prices down significantly from record highs in previous quarter** – Primarily due to higher inventory levels through supply chain; More moderate decline in lumber unit sales realizations reflecting strong order file to start the quarter, higher-value sales mix, improved offshore prices
- **Lumber shipments and production down 4% and 3%, respectively** – Drawdown of inventory in the previous quarter, effects of both the wildfires in Western Canada and Hurricane Florence on transportation and operational downtime
- **Unit manufacturing costs up moderately** – Increased market-based stumpage and significant weather-related impacts resulted in lower harvested log volumes and increased purchased wood costs in British Columbia; Log costs in the US South remained stable

Canfor Pulp Products Inc. Sales and Operating Earnings Summary



(millions of dollars unless otherwise noted)	Q3 2018	Q2 2018	Variance
Gross Sales	\$ 328.5	\$ 396.4	\$ (67.9)
Operating income (loss) by segment:			
Pulp	\$ 60.7	\$ 86.6	\$ (25.9)
Paper	\$ 3.1	\$ 1.5	\$ 1.6
Unallocated	\$ (3.3)	\$ (2.7)	\$ (0.6)
Total operating income	\$ 60.5	\$ 85.4	\$ (24.9)
Net income, as reported	\$ 42.9	\$ 63.0	\$ (20.1)
Operating income (loss) before amortization by segment:			
Pulp	\$ 79.8	\$ 105.2	\$ (25.4)
Paper	\$ 4.2	\$ 2.6	\$ 1.6
Unallocated	\$ (3.3)	\$ (2.7)	\$ (0.6)
Total operating income before amortization	\$ 80.7	\$ 105.1	\$ (24.4)
Average NBSK pulp list price delivered to China - US\$	\$ 887	\$ 910	\$ (23)
Average NBSK pulp list price delivered to China - CDN\$	\$ 1,160	\$ 1,176	\$ (16)
Production - Pulp (000 mt)	285	297	(12)
Shipments - Pulp (000 mt)	262	329	(67)

Pulp operating income down \$26 million to \$61 million in Q3

- **Pulp sales realizations in line with previous quarter; shipments down 20%** – Shipments reflecting a drawdown of inventory in the previous quarter, 10,000 tonnes vessel slip into October, the impact of early fall maintenance, softer market demand from China in the first part of quarter
- **Pulp production down 4% from previous quarter** – Higher scheduled maintenance downtime in quarter offset increased BCTMP production; Extended outage of one line at Northwood to enable necessary tube replacements to the No.5 recovery boiler
- **Manufacturing costs modestly higher than prior quarter** – Market-driven increases in fibre costs

Paper operating income up \$2 million to \$3 million in Q3

- Improved paper unit sales realizations and weaker Canadian dollar, offset higher slush pulp costs