FINAL TRANSCRIPT

Canfor

Second Quarter Analyst Call

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CORPORATE PARTICIPANTS

Don Kayne
Canfor — President and Chief Executive Officer

Kevin Edgson
Canfor Pulp — President and Chief Executive Officer, Canfor Pulp Products Inc.

Pat Elliott
Canfor — Chief Financial Officer, Canfor Corporation & and Canfor Pulp Products Inc. and Senior Vice President, Sustainability, Canfor

Kevin Pankratz
Canfor — Senior Vice President, Sales and Marketing, Canfor Corporation & Canfor Pulp Products Inc.

CONFERENCE CALL PARTICIPANTS

Hamir Patel
CIBC Capital Markets — Analyst

Sean Steuart
TD Securities — Analyst

Ketan Mamtora
BMO Capital Markets — Analyst

Paul Quinn
RBC Capital Markets — Analyst

PRESENTATION

Operator

Welcome to Canfor and Canfor Pulp's second quarter analyst call. All lines have been placed on mute to prevent any background noise.

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 the 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 Corporation's President and Chief Executive Officer. Please go ahead, Mr. Kayne.

Don Kayne — President and Chief Executive Officer, Canfor

Thank you, Michelle , and good morning, everyone. Thank you for joining the Canfor and Canfor Pulp Q2 2023 Results Conference Call.

I'm going to make a few comments before I turn things over to Kevin Edgson, Canfor Pulp's President and Chief Executive Officer, and Pat Elliott, our Chief Financial Officer of Canfor Corporation and Canfor Pulp and our Senior Vice President of Sustainability as well. In addition, we are joined by Kevin Pankratz, our Senior Vice President of Sales and Marketing.

In the second quarter, we continued our strategy to align our operating footprint in British Columbia with the available timber supply as our Chetwynd facility was permanently closed. In addition, our Houston facility was temporarily closed pending a potential reinvestment decision. We have worked in partnership with the USW to support our employees through this very difficult transition.

These were very tough decisions, and we recognize the impact on our employees, their families, our contractors, and the local communities.

We are continuing to advance the Houston brownfield project. We have completed our planning and technical work. We have also engaged in a series of discussions with the Ministry of Forests to understand the future fibre supply outlook for the region.

We need to be sure that if we proceed and go forward with construction, we will have the required economic fibre to operate consistently and successfully.

Our discussions with government are progressing well. We hope to complete these discussions in the coming weeks, and once satisfactorily concluded, we'll be advancing this project to our board.

Turning to the current wildfire situation in Western Canada, the 2023 fire season is the worst in Canadian history. Across Canada, over 12 million hectares has been burnt to date, making it the worst wildfire season on record. BC and Alberta have also set new records for the most hectares burned, with British Columbia at almost 1.5 million hectares and Alberta at over 1.7 million hectares.

With respect to the wildfires, I'd like to acknowledge the two brave firefighters and pilot who have lost their lives this year battling wildfires in Canada. I want to acknowledge and thank our employees and contractors who are helping respond to the wildfires and are working to ensure continuity across our Canadian operations and protection of our assets. We also thank all of the firefighters, emergency responders, and military personnel who are working hard responding to wildfires across the country.

While it is too early to determine the long-term fibre supply impacts, we have seen significant short-term disruptions to our operations including a three-week curtailment of our facility in Fox Creek, Alberta in the second quarter.

Despite a challenging operating environment and depressed lumber markets in the second quarter, we continued to see positive results from our geographic diversification strategy with our European and US South operations performing well and generating improved results quarter over quarter.

While high interest rates and affordability constraints are projected to persist through the third quarter, we have seen an improvement in lumber prices in the last few weeks, supported by better than anticipated demand and reduced supply. We are encouraged by the medium to long-term market fundamentals and remain focused on executing our diversification strategy and organic growth plans.

Our new facility in DeRidder, Louisiana continues to ramp up production and is performing well with a second shift expected to be added late in Q3.

Our other projects remain on schedule and on budget, including the rebuild of our sawmill in Urbana, Arkansas; our second greenfield sawmill in Alabama; and our organic growth in Sweden. In addition, we continue to review additional organic and external growth opportunities as we look to grow our lumber business on a global basis.

I will now turn it over to Kevin to provide an overview of Canfor Pulp.

Kevin Edgson — President and Chief Executive Officer, Canfor Pulp Products Inc.

Thank you, Don, and good morning, everyone. I want to start with an update regarding the impacts of the labour dispute at BC's ports.

The 13-day strike followed by an on-again/off-again job action has severely impacted our supply chain. For reference, approximately 70 percent of our pulp is shipped through these ports, both in Vancouver and Prince Rupert.

As a result, we announced a curtailment at Northwood in July, which lasted a week and resulted in approximately 10,000 tonnes of reduced NBSK production.

We anticipate the supply chain challenges to persist through much of the third quarter. And with our pulp mill inventory near capacity, we are closely following the union's ratification vote, which is expected to conclude today.

Turning to our quarterly results, Canfor Pulp had a challenging second quarter with elevated global pulp inventories and tepid demand, resulting in a significant decline in pulp pricing.

We implemented the permanent closure of the pulp line at our Prince George Pulp and Paper Mill on April 1st.

I'd like to take a moment and thank our employees for their commitment to safety and dedication and resiliency as we navigate the current challenges facing our business.

With our operational footprint now better aligned with the current available fibre supply, we anticipate an improvement in our cost structure going forward.

In addition, we believe there is significant opportunity to improve our operational efficiency and reliability, which will support the sustainability of the Company for the foreseeable future and allow us to capitalize on the strong global pulp market fundamentals we believe will remain over the medium to long term.

To achieve this goal, we have identified a significant capital reinvestment plan with approximately $500 million of capital spend identified over the foreseeable future. This includes a major rebuild of the recovery boiler number one at Northwood, which will significantly extend the useful life of this critical asset.

We currently anticipate the work on the boiler to commence in 2025, although this timeline may be accelerated or deferred depending on the condition of the boiler, which will be inspected during our planned maintenance outage in the third quarter.

We currently anticipate spending of more than $120 million on RB1, subject to final engineering and labour costs at the time of installation. The balance of the recapitalization consists of smaller projects aimed at improving reliability and asset performance.

While timing and magnitude of spend will take into account market conditions and available cash flow, we currently anticipate our annual capital spend to trend in the neighbourhood of a $100 million for each of the next several years.

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

Pat Elliott — Chief Financial Officer, Canfor Corporation & and Canfor Pulp Products Inc. and Senior Vice President, Sustainability, Canfor

Thanks, Kevin, and good morning, everyone.

The Canfor and Canfor Pulp second quarter results were released yesterday afternoon. In my comments this morning I'll speak to quarterly financial highlights, a summary of which is included in our overview slide presentation, located, as always, in the Investor Relations section of Canfor's website.

Our lumber business generated an operating loss of $16 million in the second quarter, which included a $64 million recovery of a previously recorded write-down of inventory in Western Canada and an incremental non-cash anti-dumping expense of $23 million.

These results continue to reflect losses associated with our operations in British Columbia as a result of weak lumber pricing and a high-cost operating environment.

Following the permanent and temporary closures of our Chetwynd and Houston facilities respectively, as well as the decline in market-based stumpage, we anticipate an improvement in our cost structure in BC through the back half of 2023.

Notwithstanding the current headwinds facing our industry, we continue to benefit from our diversification strategy, with our US and European operations generating strong financial results in the quarter. Our US operations benefitted from an improved sales realization as well as a contribution from DeRidder, where ramp-up is progressing well.

Our European operations contributed approximately $54 million in cash earnings in the second quarter, supported by improved pricing.

Canfor Pulp generated an operating loss of $38 million in the second quarter, which included a $7 million inventory write-down. These results principally reflected the sharp decline in global pulp pricing, which more than offset a modest improvement in fibre and conversion costs in the quarter.

Looking ahead, we anticipate a challenging third quarter as a result of current pulp market conditions, supply chain uncertainty, and planned maintenance downtime at Northwood.

Notwithstanding the current challenges facing our pulp business, we believe the longer-term market fundamentals remain strong.

At the end of the second quarter, Canfor Pulp had net debt of $46 million, with approximately $180 million of available liquidity, including the commitment to receive up to $80 million of new term debt as part of our capital reinvestment plan.

In 2023, we currently anticipate capital spend of approximately $450 million to $500 million in the lumber segment and approximately $70 million for Canfor Pulp, including capitalized maintenance. In addition, we anticipate Canfor will continue to allocate a modest amount of capital to repurchasing shares throughout the year.

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

Don Kayne

All right. Thanks Pat.

So I'll turn it over to you, Michelle, and we're ready to take questions from analysts.

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.

Our first question comes from Hamir Patel of CIBC Capital Markets. Please go ahead.

Hamir Patel — CIBC Capital Markets

Hi. Good morning. Don, are you starting to see more acquisition opportunities emerging in Europe given the weaker demand backdrop?

Don Kayne

No real change. We do see them occasionally for sure, but I wouldn't characterize that as any different than what we've seen over the last 12 to 24 months at all.

Hamir Patel

Okay. Fair enough. And Pat, I want to talk about the Houston potential project there. If you did proceed, what's your latest estimate on the potential cost and capacity of the project?

Pat Elliott

At this point, Hamir, it's probably in the neighbourhood of C$200 million, and the capacity would be 300 million to 350 million board feet.

Hamir Patel

And then timing of when that would come on, Pat?

Pat Elliott

That's still to be determined depending on available building slots. But it's going to be 2025 or later.

Hamir Patel

Okay. Great. Thanks. That's helpful. And just the last question I had for Kevin Pankratz on the lumber side.

With respect to European imports, do you have a sense as to what kind of SPF price (in) Prince George we need to kind of see those imports kind of trend one way or the other?

Kevin Pankratz — Senior Vice President, Sales and Marketing, Canfor Corporation & Canfor Pulp Products Inc., Canfor

I think that price level, Hamir, really it ranges. It moves a lot depending on currencies and what the value of residuals are. So it's really hard to pinpoint an exact one here.

But we did know that when prices were down at that 330, 340 level that you saw that there were other options for the Europeans to send their wood via China or Middle East, North Africa markets. So I don't think there's always a constant number, and I think it's going to fluctuate a little bit.

But I do think an inflection point is that we maybe anticipate a little bit more pickup in European imports towards the end of Q3, as a lot of them are still obviously in downturn in the markets.

Anyway, we see them picking up a little bit towards the end of Q3, as European markets might be having a bit more cautionary tone towards the back half of the year.

Hamir Patel

Okay. Thanks. Thanks, Kevin. That's all I had. I'll turn it over.

Operator

Thank you. The next question comes from Sean Steuart of TD Securities. Please go ahead.

Sean Steuart — TD Securities

Thank you. Good morning, everyone. I want to start with pulp, Kevin and/or Pat. I just want to understand this longer-term capital program because $0.5 billion, even if it's over the long run, is a lot of money.

Can you speak to your comfort with your current liquidity position at Canfor Pulp and borrowing capacity and any perceived needs to bolster that liquidity ahead of more aggressive CapEx?

And given the extent of how deep this commodity price trough is, do you see a need to bolster the balance sheet further to fund this CapEx program?

Kevin Edgson

Sean, Kevin here, and I'll answer it quickly on the basis that the purpose of the refinancing was to put us in a good, solid place going forward. At this point, we're not going back to the market looking for money. What we're looking to do is, between that financing and generation of cash within the organization, to tackle our reinvestment plan as quickly as we can with the available money that we have.

Sean Steuart

Okay. Second question is on the European lumber business. There was reference to intermittent log availability partly tied to Russian log imports or Russian log exports to Western Europe.

Any visibility on how long you expect this to continue and how this could affect costs at the segment and result in margin pressure?

Don Kayne

I'll maybe try to take that one Sean; it's Don.

You separate Central Europe from Northern Europe because they're entirely different in terms of several things including logging imports from Russia. But in terms of Central Europe, hard to say. I think that's probably going to exist there for a while I would say just based on the degree of reliability they place on Russian imports.

But in terms of Northern Europe, particularly in Sweden, there's been some challenges there on log availability period in certain locations, but it hasn't had any material impact on us at all. And, of course, from a Russian import standpoint, it doesn't impact us at all there in Northern Europe whatsoever.

Sean Steuart

But as it stands now, Don, you wouldn't expect this to undermine your operating rates, absent market pressure and price pressure in general, but your production's not constrained significantly by log availability. Is that a fair assessment?

Don Kayne

Fair assessment. I think we mentioned in Q2, there's been one or two regions where we've had a minor impact in terms of log availability. But I mean I think that's always a bit of a challenge in certain areas, and it may continue to some degree, but we're not concerned about it.

Sean Steuart

Okay. All right. That's all I have for now. Thanks, guys.

Don Kayne

Okay. Thanks Sean.

Operator

Thank you. The next question comes from Ketan Mamtora of BMO Capital Markets. Please go ahead.

Ketan Mamtora — BMO Capital Markets

Thank you. Good morning and thanks for taking my questions.

Maybe first question, can you give us a sense of the demand trends you are seeing in repair and remodelling and kind of new residential thus far as we've moved into kind of July?

Kevin Pankratz

Sure, Ketan, I can take that one for you.

And on the R&R, obviously, year to date, towards the end of Q2, very solid demand. And while we're not at that same pace going into July, it's still at elevated levels when you look at the units compared to this time last year. So quite strong fundamentals. And we continue to see a very strong performing sector for the balance of the year, yet maybe just not quite at the pace that we saw for the first six months.

And for new home construction, obviously, we've seen some resurgence there on the total housing start numbers, which is encouraging and better than we would have thought earlier this year. And what's encouraging is that we're seeing a recovery of single-family home construction versus the multifamily, which I think is positive for our sector. And we're seeing certain geographies really performing well.

And it's good to see markets like Texas back, which were quite quiet early in the year, and that's a very large consuming market for lumber and for single-family construction. And so I think we've got a bit more positive trend on demand in both of those statements.

Ketan Mamtora

Got it, that's helpful. Let then, follow up on that. On the R&R side, so is your volume up on a year-over-year basis in R&R? Is it kind of flattish? And has that sort of trend changed materially recently?

Kevin Pankratz

Yes. It's up double digits versus 2022.

Ketan Mamtora

And that's a year-to-date number?

Kevin Pankratz

Year to date. Yes.

Ketan Mamtora

Got it, okay. That's helpful.

And then switching to pulp and coming back to an earlier question, how should we think about kind of the return expectation on this big reinvestment program? I mean, clearly, at least in the short term, we understand that the market fundamentals are kind of tougher, pricing is down. I'm just curious kind of how you think about normalized earnings power in the pulp business, and kind of what this reinvestment program, what kind of a jump you expect post that.

Pat Elliott

Ketan, I think the way I would respond to that is we remain confident in the long-term fundamentals for the pulp business and, therefore, what we're doing is working towards ensuring our facilities are in a condition that allows that sustainable operation long term.

In terms of specifics around returns on various projects, I don't have anything there to share. And likewise, looking at earning power into the future is far too dependent on what the markets are doing.

What we expect to do is be able to return our mills to a level within the cost curve that we think is appropriate for the facilities.

Ketan Mamtora

Got it. Okay. I'll jump back in the queue. Thank you.

Operator

Thank you. Our last question comes from Paul Quinn of RBC Capital Markets. Please go ahead.

Paul Quinn — RBC Capital Markets

Yeah. Thanks very much and morning, guys. Maybe just start on the lumber side.

Just current market conditions I mean in terms of overall inventories, would you say it's adequately or slightly oversupplied right now?

Kevin Pankratz

Paul, like right now, I think it's adequate. I think it's got a fair amount of tension. I mean there's been significant supply out of the system with buyers in Eastern Canada, reduced European imports, and of course, reduced supply out of BC.

So it's relatively balanced right now. And I think our customers' inventories are probably still lower than they would normally be.

Paul Quinn

Okay. So pricing direction for the balance of the year, do you think we sort of sit in this band for a while, just given that overview?

Kevin Pankratz

Yeah. I think a lot's going to depend on, obviously, supply's going to be a big driver. But I think we're going to be in this band, and it's going to be variable. And I don't see that exceeding for the balance of the year, but I see us being within that band in that aspect there.

And then I think the other aspect too is our offshore markets. I think those are going to be relatively stable from what we've seen for the balance of years, particularly Japan. And China's going to—I think it might be a better opportunity with China with all the investments that they're announcing there. We haven't seen it trigger into actual demand yet, but the outlook is that we may see some pick-up in China toward the back end of the year.

Paul Quinn

Okay. Thanks, Kevin, that's helpful. And then you guys referenced organic growth in Sweden. Is that like a 2-to-3 percent number? Is that a 5 percent growth year over year?

Pat Elliott

Yeah, Paul. It's Pat. We're sort of seeing roughly 100 million feet a year over the next couple of years. So I think we talked about we think we can get up towards 1 8 there from 1 5.

So, just numbers slow and steady. A couple of numerous projects I guess that are slowly raising that total.

Paul Quinn

Okay. And then maybe just switching over to the pulp side for Kevin. Saw the cost for the paper side come up in the quarter. I guess that's a result of some of the costs attributed with shutting down the PG Pulp and Paper's pulp supply line.

How material would the cost drop be? I mean, is paper going to sort of generate that $10 million to $20 million to $25 million of EBITDA going forward once it's on the new operating platform?

Kevin Edgson

We're comfortable that paper is a really steady part of our value-added program. The most sensitive they are is to pulp prices. And so I think you can track the contribution.

And with pulp prices easing off, we'll see an improved contribution. A little bit on energy as a negative in the first quarter, but we don't see that being a significant issue going forward. The transition over to Intercon supplying has largely been able to do that and keep our cost base of paper consistent.

Paul Quinn

Okay. And then just overall, I mean I take a look at the enterprise value of Canfor Pulp right now, and I'm seeing it's around C$200 million. You guys have just kind of announced a $500 million rebuild effort.

What is the market missing on the valuation of your assets on Canfor Pulp side?

Kevin Edgson

I wish I understood, Paul. I've got a whole bunch of phone calls to make to find an answer to that.

Paul Quinn

All right. I'm a little mystified myself. That's all I had. Best of luck, guys. Thanks.

Don Kayne

Thanks, Paul.

Kevin Edgson

Thanks, Paul. See you.

Operator

Thank you. I'll turn the call over to Don Kayne for closing remarks. Please go ahead.

Don Kayne

Thanks. Thanks, Michelle. And thanks, everyone that participated on the call this morning. We certainly appreciate your support of Canfor and wishing you all a good, safe rest of the summer, and we'll talk to you at the end of this quarter. Take care.

Operator

Ladies and gentlemen, this does conclude the conference call for today. We thank you for your participation and ask that you please disconnect your lines.