

Canfor Corporation and Canfor Pulp Products Inc.  
Quarter 2, 2015  
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, 2014 and Management's Discussion & Analysis for the three and six months ended June 30, 2015.

Canfor Corporation  
Q2 2015 Review: Items Impacting Earnings Comparability



(millions of dollars, except for per share amounts)	Q2 2015		Q1 2015	
	\$	\$/Share	\$	\$/Share
Shareholder net income, as reported	\$ 11.1	\$ 0.08	\$ 29.3	\$ 0.22
Non-operating / unusual items (after-tax, net of non-controlling interests)				
(Gain) loss on derivative financial instruments	\$ (7.7)	\$ (0.06)	\$ 17.2	\$ 0.13
Mark-to-market gain on investment in Lakeland Mills Ltd. and Winton Global Lumber Ltd.	\$ (6.1)	\$ (0.05)	\$ -	\$ -
Mark-to-market loss on Taylor Pulp contingent consideration, net	\$ 0.7	\$ 0.01	\$ -	\$ -
Net impact of above items	\$ (13.1)	\$ (0.10)	\$ 17.2	\$ 0.13
Shareholder net income (loss), as adjusted	\$ (2.0)	\$ (0.02)	\$ 46.5	\$ 0.35

**Note 1** – In Q1 2015, certain amounts have been reclassified from Other Income to (Gain) Loss on Derivative Financial Instruments, with no impact to net income or EPS, as reported

## Canfor Corporation Sales and Operating Earnings Summary



(millions of dollars unless otherwise noted)	Q2 2015	Q1 2015	Variance
Gross Sales	\$ 952.4	\$ 930.0	\$ 22.4
Operating income (loss) by segment:			
Lumber	\$ 5.1	\$ 48.3	\$ (43.2)
Pulp and Paper	\$ 20.9	\$ 43.0	\$ (22.1)
Unallocated and Other	\$ (8.4)	\$ (7.6)	\$ (0.8)
<b>Total operating income, as reported</b>	<b>\$ 17.6</b>	<b>\$ 83.7</b>	<b>\$ (66.1)</b>
Average exchange rate (US\$ per C\$1.00)	\$ 0.813	\$ 0.806	\$ 0.007

Operating income (loss) before amortization			
Lumber	\$ 40.6	\$ 80.5	\$ (39.9)
Pulp and Paper	\$ 36.5	\$ 58.9	\$ (22.4)
Unallocated and Other	\$ (7.3)	\$ (6.4)	\$ (0.9)
<b>Total operating income before amortization</b>	<b>\$ 69.8</b>	<b>\$ 133.0</b>	<b>\$ (63.2)</b>

Canfor Corporation  
Lumber: Q2 2015 vs. Q1 2015



(millions of dollars unless otherwise noted)	Q2 2015	Q1 2015	Variance
Sales	\$ 676.0	\$ 647.0	\$ 29.0
Operating income before amortization <sup>1</sup>	\$ 40.6	\$ 80.5	\$ (39.9)
Operating income	\$ 5.1	\$ 48.3	\$ (43.2)
Average SPF 2x4 #2&Btr lumber price in CDN\$	\$ 332	\$ 382	\$ (50)
Average SYP 2x4 #2 lumber price in US\$	\$ 383	\$ 413	\$ (30)
Production - SPF lumber (MMfbm)	961	966	(5)
Production - SYP lumber (MMfbm)	305	235	70
Shipments - Canfor-produced SPF lumber (MMfbm)	1,046	931	115
Shipments - Canfor-produced SYP lumber (MMfbm)	316	236	80

**Operating earnings down \$43.2 million to \$5.1 million**

▪ **Sales realizations down compared to Q1**

- Continued decline in WSPF and SYP benchmark prices through most of Q2, 7% average export tax, 1% stronger CDN\$
- SYP realizations benefitting from high margin US South additions including Southern Lumber (April 1, 2015); less pronounced decreases in wide dimension grades
- Offshore realizations (particularly China) held up well compared to North America with more diverse product offering to offshore markets

▪ **Total lumber shipments up 17%:** Strong shipments offshore (quarterly record to China) in part due to US West Coast Port Strike and Chinese New Year in Q1; SYP shipments up 34% from Q1 with US South acquisitions and improved productivity

▪ **Total lumber production up 5%:** US South growth and improved productivity rates in SYP and WSPF operations offset by fewer operating hours at WSPF operations (Polar sawmill rebuild)

▪ **Unit manufacturing costs slightly lower:** Stable log costs, improved productivity, slightly lower labour costs and seasonally lower energy costs

**Note 1** - Controlling operating income before amortization (excluding Canfor's non-controlling interest in Scotch Gulf, Beadles & Balfour and Houston Pellet LP) for Q2 2015 was \$34.7 million. (Q1 2015: \$75.9 million)

Canfor Pulp Products Inc.  
Q2 2015 Review: Items Impacting Earnings Comparability



(millions of dollars, except for per share amounts)	Q2 2015		Q1 2015	
	\$	\$/Share	\$	\$/Share
Net income, as reported	\$ 17.7	\$ 0.25	\$ 28.0	\$ 0.40
Non-operating / unusual items (after-tax)				
(Gain) loss on derivative financial instruments	\$ (3.4)	\$ (0.05)	\$ 7.0	\$ 0.10
Mark-to-market gain on Taylor Pulp sale contingent consideration	\$ (1.3)	\$ (0.02)	\$ -	\$ -
Net impact of above items	\$ (4.7)	\$ (0.07)	\$ 7.0	\$ 0.10
Net income, as adjusted	\$ 13.0	\$ 0.18	\$ 35.0	\$ 0.50

**Note 1** – In Q1 2015, certain amounts have been reclassified from Other Income to (Gain) Loss on Derivative Financial Instruments, with no impact to net income or EPS, as reported

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



(millions of dollars unless otherwise noted)	Q2 2015	Q1 2015	Variance
<b>Gross Sales</b>	\$ 276.0	\$ 273.8	\$ 2.2
Operating income (loss) by segment:			
Pulp	\$ 18.1	\$ 36.3	\$ (18.2)
Paper	\$ 5.7	\$ 7.9	\$ (2.2)
Unallocated	\$ (2.9)	\$ (2.8)	\$ (0.1)
<b>Total operating income</b>	\$ 20.9	\$ 41.4	\$ (20.5)
<b>Net income, as reported</b>	\$ 17.7	\$ 28.0	\$ (10.3)
Operating income (loss) before amortization by segment:			
Pulp	\$ 32.8	\$ 51.1	\$ (18.3)
Paper	\$ 6.5	\$ 8.8	\$ (2.3)
Unallocated	\$ (2.9)	\$ (2.8)	\$ (0.1)
<b>Total operating income before amortization</b>	\$ 36.4	\$ 57.1	\$ (20.7)
Average NBSK pulp list price delivered to U.S. - US\$	\$ 980	\$ 995	\$ (15)
Average NBSK pulp list price delivered to U.S. - CDN\$	\$ 1,205	\$ 1,235	\$ (30)
Production - Pulp (000 mt) <sup>1</sup>	295	288	7
Shipments - Pulp (000 mt) <sup>1</sup>	292	272	20

### Pulp operating income down \$18.2 million to \$18.1 million

- **Sales realizations down compared to Q1:** NBSK sales realizations reflecting lower pricing in all regions, higher shipments to lower-margin regions, slightly stronger CDN\$; BCTMP sales realizations impacted by challenging markets
- **Pulp shipments up 7% and production up 2%:** Contribution from the recently acquired Taylor Pulp Mill and marginal increase in NBSK shipments to China with Chinese New Year in Q1; production impacted by scheduled maintenance outages at the Intercontinental and Prince George Pulp Mills (11,000 tonnes) and Taylor (3,000 tonnes)
- **Unit manufacturing costs up from Q1:** Impact of scheduled maintenance outages partly offset by seasonally lower energy costs; fibre costs broadly in line with Q1

### Paper operating income down \$2.2 million to \$5.7 million

- **Paper production down 12% while shipments up 5%:** Scheduled outage at the paper machine impacting production (3,300 tonnes) ; shipments up with higher North American demand
- **Unit manufacturing costs higher :** Lower slush pulp costs more than offset by impact of scheduled maintenance outages

**Note 1 -** Pulp production and shipment volumes in 2015 include BCTMP volumes subsequent to CPPI's purchase of the Taylor BCTMP Mill on January 30, 2015.