

**Canfor Corporation and Canfor Pulp Products Inc.
Quarter 4, 2018
Financial Performance Overview**



Presented by:

Alan Nicholl – CFO & Executive VP, Finance & Canfor Pulp Operations



- 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, 2018.

Canfor Corporation
Q4 2018 Review: Items Impacting Earnings Comparability



(millions of dollars, except for per share amounts)	Q4 2018		Q3 2018	
	\$	\$/Share	\$	\$/Share
Shareholder net income (loss), as reported	\$ (52.4)	\$ (0.42)	\$ 125.3	\$ 0.97
Non-operating items (after-tax, net of non-controlling interests)				
Countervailing and anti-dumping duty deposit expense, net	\$ 28.8	\$ 0.22	\$ 31.1	\$ 0.24
Foreign exchange (gain) loss on long-term debt and duties receivable	\$ 2.1	\$ 0.02	\$ (0.7)	\$ (0.01)
(Gain) Loss on derivative financial instruments	\$ (6.5)	\$ (0.05)	\$ 1.2	\$ 0.01
Net impact of above items	\$ 24.4	\$ 0.19	\$ 31.6	\$ 0.24
Shareholder net income (loss), as adjusted	\$ (28.0)	\$ (0.23)	\$ 156.9	\$ 1.21

Canfor Corporation

Sales and Operating Earnings Summary



(millions of dollars unless otherwise noted)	Q4 2018	Q3 2018	Variance
Gross sales	\$ 1,028.1	\$ 1,323.3	\$ (295.2)
Reported operating income (loss) by segment:			
Lumber	\$ (87.7)	\$ 148.9	\$ (236.6)
Pulp and Paper	\$ 15.6	\$ 60.5	\$ (44.9)
Unallocated and Other	\$ (7.0)	\$ (7.6)	\$ 0.6
Total operating income (loss), as reported	\$ (79.1)	\$ 201.8	\$ (280.9)
Countervailing and anti-dumping duties	\$ 39.9	\$ 42.6	\$ (2.7)
Inventory valuation adjustment	\$ 36.7	\$ -	\$ 36.7
Total operating income (loss), as adjusted	\$ (2.5)	\$ 244.4	\$ (246.9)
Average exchange rate (US\$ per C\$1.00)	\$ 0.758	\$ 0.765	\$ (0.007)

Reported operating income (loss) before amortization			
Lumber	\$ (38.2)	\$ 196.7	\$ (234.9)
Pulp and Paper	\$ 36.1	\$ 80.7	\$ (44.6)
Unallocated and Other	\$ (7.0)	\$ (7.5)	\$ 0.5
Total operating income (loss) before amortization, as reported	\$ (9.1)	\$ 269.9	\$ (279.0)
Countervailing and anti-dumping duties	\$ 39.9	\$ 42.6	\$ (2.7)
Inventory valuation adjustment	\$ 36.7	\$ -	\$ 36.7
Total operating income before amortization, as adjusted	\$ 67.5	\$ 312.5	\$ (245.0)

Canfor Corporation Countervailing and Anti-Dumping Duty Summary



	Q4 2018	Q3 2018	Variance
Effective Duties by Quarter:			
Cash Deposits Paid (20.52%)	\$ 29.7	\$ 55.5	\$ (25.8)
Quarterly Duty Recovery, attributable to current quarter	\$ (5.5)	\$ (12.9)	\$ 7.4
Effective Duty Expense, net, for the current quarter (Q4 2018 - 16.14%; Q3 2018 - 14.94%)	\$ 24.2	\$ 42.6	\$ (18.4)
Add: Duty Expense, net, attributable to prior quarters (re. ADD accrual rate increase from 1.7% to 2.9%)	\$ 15.7	\$ -	\$ 15.7
Duty Expense, net, as reported	\$ 39.9	\$ 42.6	\$ (2.7)

Canfor Corporation Lumber: Q4 2018 vs. Q3 2018



(millions of dollars unless otherwise noted)	Q4 2018	Q3 2018	Variance
Sales	\$ 738.4	\$ 994.9	\$ (256.5)
Operating income (loss) before amortization, as reported	\$ (38.2)	\$ 196.7	\$ (234.9)
Operating income (loss), as reported	\$ (87.7)	\$ 148.9	\$ (236.6)
Operating income (loss), as adjusted	\$ (11.1)	\$ 191.5	\$ (202.6)
Average SPF 2x4 #2&Btr lumber price in CDN\$	\$ 432	\$ 630	\$ (198)
Average SYP East 2x4 #2 lumber price in US\$	\$ 457	\$ 488	\$ (31)
Production - SPF lumber (MMfbm)	793	922	(129)
Production - SYP lumber (MMfbm)	334	354	(20)
Shipments - Canfor-produced SPF lumber (MMfbm)	783	934	(151)
Shipments - Canfor-produced SYP lumber (MMfbm)	331	358	(27)

Adjusted operating loss of \$11 million, down \$203 million from Q3

- Reported Q4 results include net duty expense of \$40 million at effective rate of 16.14% (Q3 – net duty expense of \$43 million at 14.94%) and a write-down to year-end lumber and log inventory of \$37 million
- Substantially lower Western SPF and SYP benchmark lumber prices** – Slowing North American demand coupled with excess inventory in the supply chain placed significant downward pressure on prices through the fourth quarter; offshore lumber consumption remained solid, with increased shipments to China
- Lumber shipments and production down 14% and 12%, respectively** – Weaker market conditions, combined with log supply constraints and elevated log costs resulted in approximately 100 million board feet of curtailment at the Company's lumber operations in British Columbia; further reduction of 95 million board feet anticipated in the first quarter of 2019
- Unit manufacturing costs up moderately** – Effects of timing on market-based stumpage increases, higher purchased wood costs and log supply shortages, in addition to lower productivity in both operating regions, reflecting the impact of curtailments in BC and weather-related challenges at the Company's US South operations

Canfor Pulp Products Inc. Sales and Operating Earnings Summary



(millions of dollars unless otherwise noted)	Q4 2018	Q3 2018	Variance
Gross Sales	\$ 289.7	\$ 328.5	\$ (38.8)
Operating income (loss) by segment:			
Pulp	\$ 15.2	\$ 60.7	\$ (45.5)
Paper	\$ 3.5	\$ 3.1	\$ 0.4
Unallocated	\$ (3.1)	\$ (3.3)	\$ 0.2
Total operating income	\$ 15.6	\$ 60.5	\$ (44.9)
Net income, as reported	\$ 14.2	\$ 42.9	\$ (28.7)
Operating income (loss) before amortization by segment:			
Pulp	\$ 34.7	\$ 79.8	\$ (45.1)
Paper	\$ 4.4	\$ 4.2	\$ 0.2
Unallocated	\$ (3.0)	\$ (3.3)	\$ 0.3
Total operating income before amortization	\$ 36.1	\$ 80.7	\$ (44.6)
Average NBSK pulp list price delivered to China - US\$	\$ 805	\$ 887	\$ (82)
Average NBSK pulp list price delivered to China - CDN\$	\$ 1,062	\$ 1,160	\$ (98)
Production - Pulp (000 mt)	224	285	(61)
Shipments - Pulp (000 mt)	231	262	(31)

Pulp operating income down \$46 million to \$15 million in Q4

- **Pulp production and shipments down 22% and 12%, respectively** – Primarily reflecting previously announced Northwood No. 5 recovery boiler repairs and a third party natural gas explosion in Prince George; total reduced NBSK pulp production of approximately 90,000 tonnes; BCTMP production impacted by a 7-day curtailment as a result of reduced residual fibre availability following sawmill curtailments
- **Manufacturing costs significantly higher than prior quarter** – Primarily as a result of the lower production volume and higher related maintenance, energy, and chemical costs associated with the unscheduled outages, particularly at Northwood, in the current quarter
- **Pulp sales realizations broadly in line with previous quarter** – Weaker US-dollar list prices to China partially offset by higher US-dollar list prices to North America and proportionately higher shipments to North America

Paper operating income up slightly from previous quarter at \$4 million

- Solid operating performance at the Company's paper machine and steady paper unit sales realizations