

**Canfor Corporation and Canfor Pulp Products Inc.  
Quarter 2, 2019  
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, 2018.

**Canfor Corporation**  
**Q2 2019 Review: Items Impacting Earnings Comparability**



(millions of dollars, except for per share amounts)	Q2 2019		Q1 2019	
	\$	\$/Share	\$	\$/Share
Shareholder net loss, as reported	\$ (48.6)	\$ (0.39)	\$ (89.5)	\$ (0.71)
Non-operating items (after-tax, net of non-controlling interests)				
Countervailing and anti-dumping duty deposit expense, net	\$ 33.0	\$ 0.26	\$ 26.5	\$ 0.21
Foreign exchange (gain) loss on long-term debt and duty deposits recoverable, net	\$ (2.9)	\$ (0.02)	\$ 0.8	\$ 0.01
(Gain) loss on derivative financial instruments	\$ (1.7)	\$ (0.01)	\$ 25.4	\$ 0.20
Restructuring costs	\$ 8.4	\$ 0.06	\$ -	\$ -
Net impact of above items	\$ 36.8	\$ 0.29	\$ 52.7	\$ 0.42
Shareholder net loss, as adjusted	\$ (11.8)	\$ (0.10)	\$ (36.8)	\$ (0.29)

# Canfor Corporation

## Sales and Operating Earnings Summary



(millions of dollars unless otherwise noted)	Q2 2019	Q1 2019	Variance
Gross sales	\$ 1,313.0	\$ 1,148.7	\$ 164.3
Reported operating income (loss) by segment:			
Lumber	\$ (60.6)	\$ (78.0)	\$ 17.4
Pulp and Paper	\$ 18.4	\$ 18.1	\$ 0.3
Unallocated and Other	\$ (7.5)	\$ (10.0)	\$ 2.5
<b>Total operating loss, as reported</b>	\$ (49.7)	\$ (69.9)	\$ 20.2
Countervailing and anti-dumping duties, net	\$ 45.2	\$ 36.3	\$ 8.9
Inventory write-down (recovery), net	\$ (11.6)	\$ 38.6	\$ (50.2)
Restructuring costs	\$ 11.5	\$ -	\$ 11.5
<b>Total operating income (loss), as adjusted</b>	\$ (4.6)	\$ 5.0	\$ (9.6)
Average exchange rate (US\$ per C\$1.00)	\$ 0.748	\$ 0.752	\$ (0.004)

Reported operating income (loss) before amortization			
Lumber	\$ 8.7	\$ (14.0)	\$ 22.7
Pulp and Paper	\$ 41.7	\$ 40.4	\$ 1.3
Unallocated and Other	\$ (7.3)	\$ (9.8)	\$ 2.5
<b>Total operating income before amortization, as reported</b>	\$ 43.1	\$ 16.6	\$ 26.5
Countervailing and anti-dumping duties, net	\$ 45.2	\$ 36.3	\$ 8.9
Inventory write-down (recovery), net	\$ (11.6)	\$ 38.6	\$ (50.2)
Restructuring costs	\$ 11.5	\$ -	\$ 11.5
<b>Total operating income before amortization, as adjusted</b>	\$ 88.2	\$ 91.5	\$ (3.3)

# Canfor Corporation Countervailing and Anti-Dumping Duty Summary



Effective Duties by Quarter:	Q2 2019	Q1 2019	Variance
Cash deposits paid <sup>1</sup>	\$ 37.3	\$ 33.2	\$ 4.1
Incremental duty expense, attributable to current quarter <sup>2</sup>	\$ 7.9	\$ 7.4	\$ 0.5
<b>Effective duty expense, net, for the current quarter<sup>3</sup></b>	<b>\$ 45.2</b>	<b>\$ 40.6</b>	<b>\$ 4.6</b>
Duty expense (recovery), net, attributable to first period of administrative review <sup>4</sup>	\$ -	\$ (4.3)	\$ 4.3
<b>Duty expense, net, as reported</b>	<b>\$ 45.2</b>	<b>\$ 36.3</b>	<b>\$ 8.9</b>

<sup>1</sup> Combined CVD and ADD deposit rate of 20.52%

<sup>2</sup> Expense reflects ADD accrual rate of 13.00%

<sup>3</sup> Combined CVD and ADD rate of 26.24%

<sup>4</sup> Q1 2019 recovery reflects downward adjustment to ADD accrual rate related to first period of administrative review (July 2017 to December 2018)

# Canfor Corporation

## Lumber: Q2 2019 vs. Q1 2019



(millions of dollars unless otherwise noted)	Q2 2019	Q1 2019	Variance
Sales	\$ 993.5	\$ 844.7	\$ 148.8
Operating income (loss) before amortization, as reported	\$ 8.7	\$ (14.0)	\$ 22.7
Operating loss, as reported	\$ (60.6)	\$ (78.0)	\$ 17.4
Operating loss, as adjusted	\$ (28.9)	\$ (3.1)	\$ (25.8)
Average WSPF 2x4 #2&Btr lumber price in CDN\$	\$ 445	\$ 495	\$ (50)
Average SYP East 2x4 #2 lumber price in US\$	\$ 393	\$ 416	\$ (23)
Average European indicative SPF lumber price in SEK <sup>5</sup>	4,003	4,111	(108)
Production - WSPF lumber (MMfbm)	763	796	(33)
Production - SYP lumber (MMfbm)	354	365	(11)
Production - EUR SPF lumber (MMfbm)	267	91	176
Shipments - Canfor-produced WSPF lumber (MMfbm)	847	743	104
Shipments - Canfor-produced SYP lumber (MMfbm)	350	352	(2)
Shipments - Canfor-produced EUR SPF lumber (MMfbm)	278	95	183

### Adjusted lumber operating loss of \$29 million, down \$26 million from Q1

- Reported Q2 results include net duty expense of \$45 million at effective rate of 26.24% (Q1 – expense of \$36 million at 26.24%), a recovery in the inventory write-down provision of \$25 million (Q1 – write-down of \$39 million), and restructuring costs related to announced closure of Vavenby sawmill of \$12 million.
- **Full quarter of European SPF lumber earnings (Vida)** – Consisting of Q2 sales of \$237 million, operating income before amortization of \$26 million and operating income of \$10 million (Q1 sales of \$88 million, operating income before amortization of \$16 million and operating income of \$5 million).
- **Declines in Western SPF, SYP sales realizations; Steady European SPF sales realizations**
  - Slower than anticipated recovery in US housing starts, record year-to-date precipitation and severe flooding across the US South delaying the typically busy spring construction season; combined with excess inventory in the supply chain, resulting in materially lower average North American lumber benchmark prices.
  - Solid European demand holding prices relatively stable in that region; 2% stronger Canadian dollar against the Swedish Krona.
- **Lumber shipments and production up 24% and 11%, respectively** – Benefit of first full quarter of European operations; Higher Western SPF shipments, notwithstanding BC production curtailments of 150 million board feet in the quarter (Q1 - 95 million board feet).
- **Improved unit manufacturing costs** – Higher weather-related operating and energy costs in Q1 and lower market-related log costs in both Western Canada and the US South in Q2; European unit manufacturing costs in line with previous quarter.

# Canfor Pulp Products Inc.

## Pulp: Q2 2019 vs. Q1 2019 and Sales and Operating Earnings Summary



(millions of dollars unless otherwise noted)	Q2 2019	Q1 2019	Variance
Gross Sales	\$ 319.5	\$ 304.0	\$ 15.5
Reported operating income (loss) by segment:			
Pulp	\$ 12.9	\$ 15.5	\$ (2.6)
Paper	\$ 8.1	\$ 5.9	\$ 2.2
Unallocated	\$ (2.6)	\$ (3.3)	\$ 0.7
<b>Total operating income, as reported</b>	<b>\$ 18.4</b>	<b>\$ 18.1</b>	<b>\$ 0.3</b>
Inventory write-down	\$ 13.4	\$ 0.3	\$ 13.1
<b>Total operating income, as adjusted</b>	<b>\$ 31.8</b>	<b>\$ 18.4</b>	<b>\$ 13.4</b>
Reported operating income (loss) before amortization by segment:			
Pulp	\$ 35.3	\$ 36.9	\$ (1.6)
Paper	\$ 9.0	\$ 6.8	\$ 2.2
Unallocated	\$ (2.6)	\$ (3.3)	\$ 0.7
<b>Total operating income before amortization, as reported</b>	<b>\$ 41.7</b>	<b>\$ 40.4</b>	<b>\$ 1.3</b>
Inventory write-down	\$ 13.4	\$ 0.3	\$ 13.1
<b>Total operating income before amortization, as adjusted</b>	<b>\$ 55.1</b>	<b>\$ 40.7</b>	<b>\$ 14.4</b>
Average NBSK pulp list price delivered to China - US\$	\$ 653	\$ 710	\$ (57)
Average NBSK pulp list price delivered to China - CDN\$	\$ 873	\$ 944	\$ (71)
Production - Pulp (000 mt)	300	274	26
Shipments - Pulp (000 mt)	288	259	29

### Adjusted pulp operating income of \$26 million, up \$11 million from Q1

- Reported Q2 results include a write-down to finished pulp and raw materials of \$13.4 million (Q1 – write-down of \$0.3 million).
- Pulp sales realizations moderately lower than previous quarter** – Reflecting price declines across various regions and timing of shipments (versus orders).
- Pulp production and shipments up 9% and 11%, respectively** – Reflecting improved operating rates in Q2; Q2 scheduled maintenance outages at Intercon and Taylor reducing pulp production by 11,000 tonnes and 6,000 tonnes, respectively.
- Improved unit manufacturing costs** – Related to improved productivity, seasonally lower energy usage and modest declines in fibre costs (lower market-based chip costs, which offset seasonal pricing adjustments and higher proportion of higher-cost whole log chips).

### Paper operating income up \$2 million from previous quarter at \$8 million

- Benefit of both lower slush pulp costs (linked to lower Canadian dollar NBSK pulp prices) and solid operating performance.