CANFOR CORPORATION

2017

QUARTER FOUR

INTERIM REPORT

FOR THE THREE MONTHS ENDED DEC 31, 2017

To Our Shareholders

Canfor Corporation reported fourth quarter 2017 results:

Highlights

- Q4, 2017 adjusted operating income of $190.8 million, aided by improved lumber unit sales realizations and record-high pulp and paper earnings; operating income of $598.5 million and record-high sales of $4.66 billion in 2017
- Adjusted net income of $114.8 million, or $0.89 per share; $363.4 million, or $2.77 per share, for 2017
- CVD/ADD duty deposit rate reduced from 27.98% to 20.52% following final determination by US Department of Commerce; combined duty expense of 14.34% recorded in fourth quarter of 2017 to reflect impact of updated sales and cost data on ADD rate in 2017
- Net debt of $97.5 million, or 4.6% net debt to total capitalization, at December 31, 2017
- Construction of new state-of-the-art US$120 million greenfield sawmill in Georgia approved by Board of Directors: 275 million board feet of high-value dimension Southern Yellow Pine lumber

Financial Results

The following table summarizes selected financial information for the Company for the comparative periods:

(millions of Canadian dollars, except per share amounts)	**Q4 2017**	Q3 2017	**YTD 2017**	Q4 2016	YTD 2016
Sales	**$ 1,182.2**	$ 1,165.2	**$ 4,658.8**	$ 1,043.5	$ 4,234.9
Reported Operating income before amortization	**$ 278.2**	$ 166.9	**$ 807.3**	$ 137.6	$ 548.4
Reported Operating income	**$ 214.2**	$ 105.4	**$ 557.4**	$ 74.0	$ 306.1
Adjusted operating income before amortization[1]	**$ 254.8**	$ 195.8	**$ 848.4**	$ 135.6	$ 530.9
Adjusted operating income[1]	**$ 190.8**	$ 134.3	**$ 598.5**	$ 72.0	$ 288.6
Net income[2]	**$ 131.8**	$ 66.2	**$ 345.4**	$ 38.0	$ 150.9
Net income per share, basic and diluted[2]	**$ 1.02**	$ 0.51	**$ 2.63**	$ 0.29	$ 1.14
Adjusted net income[2]	**$ 114.8**	$ 84.6	**$ 363.4**	$ 37.7	$ 136.8
Adjusted net income per share, basic and diluted[2]	**$ 0.89**	$ 0.65	**$ 2.77**	$ 0.29	$ 1.03

[1] Adjusted for countervailing and anti-dumping duty deposits expensed for accounting purposes (net recovery of $23.4 million in the fourth quarter of 2017, expense of $32.1 million in the third quarter of 2017 and expense of $44.3 million in 2017); a recovery of $3.2 million and $2.0 million related to lower estimated Canal Flats closure costs recorded in the third quarter of 2017 and fourth quarter of 2016, respectively; and a one-time gain of $15.5 million related to a legal settlement in 2016.

[2] Attributable to equity shareholders of the Company

The Company reported operating income of $214.2 million for the fourth quarter of 2017, up $108.8 million from reported operating income of $105.4 million for the third quarter of 2017, with the increase reflecting higher operating earnings for both the lumber and pulp and paper segments. Lumber segment results reflected significantly higher Western Spruce/Pine/Fir ("Western SPF") lumber prices, lower duties expensed in the current quarter and modest increases in Southern Yellow Pine ("SYP") lumber prices. These factors more than offset continued challenges presented by weather which contributed to lower production and shipments through the quarter, as well as upward pressure on purchased wood and unit log costs in Western Canada. Record pulp and paper segment earnings largely reflected a sharp improvement in demand, which resulted in significantly higher Northern Bleached Softwood Kraft ("NBSK") pulp and Bleached Chemi-Thermo Mechanical Pulp ("BCTMP") US-dollar pricing.

During the fourth quarter of 2017, the US Department of Commerce ("DOC") announced its final countervailing duty ("CVD") and anti-dumping duty ("ADD") determinations, while the US International Trade Commission issued an affirmative determination of injury. As a result, Canfor was issued a final ADD rate of 7.28%, and was subject to countervailing duties on Canadian lumber exports destined to the US at a reduced rate of 13.24%, effective December 28, 2017. Cash deposits are posted at the published CVD and ADD rates as determined by the DOC. For accounting purposes, however, Canfor recorded the ADD expense at a rate of 1.1%, which was estimated by applying the DOC's methodology to updated sales and cost data. This resulted in a combined effective CVD and ADD rate of 14.34% for the applicable period in 2017.

Reflecting the aforementioned duty adjustments, reported results for the fourth quarter of 2017 incorporated a net duty recovery of $23.4 million, determined as follows:

- Recovery of $14.0 million to true-up the preliminary countervailing duty to the Company's final countervailing duty rate as published by the DOC for applicable shipments made between April 24, 2017 and August 25, 2017;
- A further $30.9 million recovery to true-up the preliminary anti-dumping duty expense to the lower accrual rate on applicable shipments from June 30, 2017 to December 31, 2017 ($15.9 million of this pertained to the fourth quarter of 2017);
- Cash deposits of $21.5 million made in the current period

North American lumber demand remained solid in the fourth quarter of 2017, with US housing starts, on a seasonally adjusted basis, averaging 1,251,000 units, up 7% from the previous quarter, and in line with the fourth quarter of 2016. Single-family starts, which consume a higher proportion of lumber compared to multi-family starts, hit a 10-year high in November and were up 5% from the previous quarter, while multi-family starts were up 12% compared to the third quarter of 2017. In Canada, housing starts remained near historical highs, averaging 233,000 units on a seasonally adjusted basis, up 4% from the previous quarter, and up 16% from the same period in 2016. Offshore lumber demand remained steady.

Western SPF lumber unit sales realizations increased significantly compared to the third quarter of 2017 reflecting higher average Western SPF lumber prices, a 1 cent, or 1%, weaker Canadian dollar and a higher-value sales mix. Strong underlying demand and limited available supply contributed to historically high benchmark Western SPF lumber prices, with the benchmark North American Random Lengths Western SPF 2x4 #2&Btr price averaging US$462 per Mfbm, up US$56 per Mfbm, or 14%, from the previous quarter, with similar increases seen across most wider dimensions. SYP lumber unit sales realizations were modestly higher compared to the prior quarter as a higher-value sales mix, a 12% increase in the SYP East 2x4 #2 price and strong 2x6 pricing more than offset seasonally lower pricing in wider dimensions.

Total lumber shipments, at 1.24 billion board feet, were 9% lower than the previous quarter reflecting lower productivity, capital related downtime in the US South, increased statutory holidays, and weather-related transportation challenges in Western Canada, which placed constraints on railcar and truck availability.

Total lumber production, at 1.24 billion board feet, was down 5% from the previous quarter reflecting fewer operating hours as a result of the aforementioned factors. Ongoing weather challenges impacted log deliveries, log profile and drying capacity in Western Canada, which contributed to lower productivity in the current quarter. Severe wet weather, coupled with capital related downtime, accounted for a decrease of 6% in SYP production quarter-over-quarter.

Lumber unit manufacturing costs in the fourth quarter of 2017 were moderately higher than the previous quarter, as the severe weather conditions in Western Canada impacted log deliveries, contributing to higher purchase wood and log hauling costs. Cash conversion costs were impacted by seasonally higher energy costs, as well as the unfavourable impact of lower production volumes. Log costs in the US South remained stable.

The strong surge in pulp demand in the current quarter, principally from China, was partly in response to new regulations by the Chinese government restricting the import of recycled mixed paper. This development, in combination with already solid demand, a modest decline in the Canadian dollar and various unforeseen global pulp supply disruptions, paved the way for a significant increase in NBSK pulp unit sales realizations quarter-over-quarter. Average BCTMP unit sales realizations also saw strong gains, reflecting the good market conditions and the favourable foreign exchange movement in the fourth quarter of 2017. Energy revenues also increased, for the most part reflecting strong power generation combined with seasonally higher energy prices.

Pulp shipments and production volumes were broadly in line with the previous quarter. The impact on pulp production of the previously announced unscheduled outage at CPPI's Northwood NBSK pulp mill in November, was offset in part by improved productivity across all NBSK pulp mills, including the Northwood mill following the outage. After taking account of scheduled and unscheduled outages in each period, total pulp production for the fourth quarter was slightly below that of the third quarter. The anticipated benefit of a slipped vessel shipment from the previous quarter into the fourth quarter was offset by a delayed vessel shipment over the year end due to adverse weather conditions. Pulp unit manufacturing costs were largely consistent with the previous quarter, as increased maintenance spend combined with higher energy usage in the current quarter, primarily due to the aforementioned unplanned outage, was offset by lower chemical costs and improved productivity towards the end of the period.

Subsequent to year-end, Canfor announced it will proceed with construction of new US$120 million, state-of-the-art 275 million board foot sawmill in Washington, Georgia, with a projected start-up in the third quarter of 2019.

Looking ahead, the US housing market is forecast to continue its ongoing gradual recovery through 2018. North American lumber prices are projected to remain at current historical-high levels in the first quarter of 2018, reflecting low inventories, solid demand and weather-related challenges in Western Canada. For the Company's key offshore lumber markets, demand is anticipated to remain solid through the first quarter of 2018, particularly in Japan. The various disruptions presented by weather to-date in 2018 are projected to result in lower production and shipment volumes for the first quarter of 2018.

Global softwood kraft pulp markets are projected to remain well positioned through the first quarter of 2018, with continued strong shipments into Asian markets, particularly China, and sustained demand in other markets. CPPI has announced NBSK pulp list price increases of US$10 per tonne to China for January 2018, and two consecutive price increases to North America, each of US$30 per tonne, for February and March 2018. A balanced kraft pulp market is projected to continue into the second quarter of 2018, when many pulp producers have their traditional spring maintenance outages. The BCTMP market is seeing some reduced demand in the first quarter of 2018, which is resulting in downward price pressure. Early 2018 weather related transportation disruptions are projected to result in delayed shipments and modestly higher costs for the first quarter of 2018. The pulp outlook for the remainder of the year is more uncertain given incremental pulp capacity currently projected to come online and the potential for the reinstatement of some import permits for recovered paper in China through 2018.

Refer to the Company's annual Management's Discussion and Analysis for further discussion on the Company's results for the fourth quarter of 2017 on page 25.

Conrad A. Pinette
Chairman

Don B. Kayne
President and Chief Executive Officer

Canfor Corporation
Condensed Consolidated Balance Sheets

(millions of Canadian dollars, unaudited)		**As at December 31, 2017**		As at December 31, 2016
ASSETS				
Current assets				
Cash and cash equivalents	**$**	**288.2**	$	156.6
Accounts receivable - Trade		**193.0**		164.2
- Other		**45.5**		66.5
Inventories		**628.9**		549.0
Prepaid expenses and other		**51.4**		50.6
Total current assets		**1,207.0**		986.9
Property, plant and equipment		**1,438.1**		1,460.8
Timber licenses		**518.3**		532.7
Goodwill and other intangible assets		**228.1**		238.8
Long-term investments and other (Note 4)		**83.3**		50.7
Retirement benefit surplus (Note 6)		**7.9**		5.9
Deferred income taxes, net		**5.6**		1.3
Total assets	**$**	**3,488.3**	$	3,277.1
LIABILITIES				
Current liabilities				
Operating loans	**$**	**-**	$	28.0
Accounts payable and accrued liabilities		**470.0**		384.1
Current portion of deferred reforestation obligations		**49.5**		48.5
Forward purchase liability		**-**		41.7
Current portion of long-term debt (Note 5)		**0.3**		-
Total current liabilities		**519.8**		502.3
Long-term debt (Note 5)		**385.4**		448.0
Retirement benefit obligations (Note 6)		**272.0**		302.2
Deferred reforestation obligations		**63.0**		56.9
Other long-term liabilities		**23.7**		23.7
Deferred income taxes, net		**223.4**		205.5
Total liabilities	**$**	**1,487.3**	$	1,538.6
EQUITY				
Share capital	**$**	**1,014.9**	$	1,047.7
Contributed surplus and other equity		**31.9**		(4.6)
Retained earnings		**629.5**		351.7
Accumulated other comprehensive income		**55.1**		88.9
Total equity attributable to equity shareholders of the Company		**1,731.4**		1,483.7
Non-controlling interests		**269.6**		254.8
Total equity	**$**	**2,001.0**	$	1,738.5
Total liabilities and equity	**$**	**3,488.3**	$	3,277.1

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

APPROVED BY THE BOARD

Director, R.S. Smith

Director, C.A. Pinette

Canfor Corporation
Condensed Consolidated Statements of Income

(millions of Canadian dollars, except per share data, unaudited)	3 months ended December 31, **2017**	2016	12 months ended December 31, **2017**	2016
Sales	**$ 1,182.2**	$ 1,043.5	**$ 4,658.8**	$ 4,234.9
Costs and expenses				
Manufacturing and product costs	**732.3**	729.0	**3,038.1**	2,947.2
Freight and other distribution costs	**166.3**	150.5	**656.2**	635.8
Countervailing and anti-dumping duty expense, net of recovery (Note 12)	**(23.4)**	-	**44.3**	-
Amortization	**64.0**	63.6	**249.9**	242.3
Selling and administration costs	**29.0**	26.7	**114.5**	103.7
Restructuring, mill closure and severance costs, net of recovery	**(0.2)**	0.3	**(1.0)**	3.4
	968.0	970.1	**4,102.0**	3,932.4
Equity income	**-**	0.6	**0.6**	3.6
Operating income	**214.2**	74.0	**557.4**	306.1
Finance expense, net	**(6.9)**	(8.0)	**(30.8)**	(32.8)
Foreign exchange gain (loss) on long-term debt	**(0.7)**	(3.1)	**8.8**	4.1
Gain (loss) on derivative financial instruments	**(6.5)**	2.1	**(5.2)**	2.9
Other income (expense), net	**1.5**	(4.1)	**(3.8)**	(12.5)
Net income before income taxes	**201.6**	60.9	**526.4**	267.8
Income tax expense (Note 3)	**(49.0)**	(16.7)	**(132.8)**	(63.9)
Net income	**$ 152.6**	$ 44.2	**$ 393.6**	$ 203.9
Net income attributable to:				
Equity shareholders of the Company	**$ 131.8**	$ 38.0	**$ 345.4**	$ 150.9
Non-controlling interests	**20.8**	6.2	**48.2**	53.0
Net income	**$ 152.6**	$ 44.2	**$ 393.6**	$ 203.9
Net income per common share: (in Canadian dollars)				
Attributable to equity shareholders of the Company				
- Basic and diluted (Note 7)	**$ 1.02**	$ 0.29	**$ 2.63**	$ 1.14

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

Canfor Corporation
Condensed Consolidated Statements of Other Comprehensive Income (Loss)

(millions of Canadian dollars, unaudited)	3 months ended December 31, **2017**	3 months ended December 31, 2016	12 months ended December 31, **2017**	12 months ended December 31, 2016
Net income	**$ 152.6**	$ 44.2	**$ 393.6**	$ 203.9
Other comprehensive income (loss)				
Items that will not be recycled through net income:				
Defined benefit plan actuarial gains (losses) (Note 6)	**38.4**	20.3	**24.1**	(50.9)
Income tax recovery (expense) on defined benefit plan actuarial losses/gains (Note 3)	**(8.7)**	(5.3)	**(5.0)**	13.2
	29.7	15.0	**19.1**	(37.7)
Items that may be recycled through net income:				
Foreign exchange translation of foreign operations, net of tax	**2.6**	10.4	**(33.8)**	(11.1)
Change in fair value of available-for-sale financial instruments, net of tax	**-**	(0.2)	**-**	-
Other comprehensive income (loss), net of tax	**32.3**	25.2	**(14.7)**	(48.8)
Total comprehensive income	**$ 184.9**	$ 69.4	**$ 378.9**	$ 155.1
Total comprehensive income attributable to:				
Equity shareholders of the Company	**$ 154.0**	$ 62.1	**$ 322.2**	$ 107.4
Non-controlling interests	**30.9**	7.3	**56.7**	47.7
Total comprehensive income	**$ 184.9**	$ 69.4	**$ 378.9**	$ 155.1

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

Canfor Corporation
Condensed Consolidated Statements of Changes in Equity

(millions of Canadian dollars, unaudited)	3 months ended December 31, **2017**	2016	12 months ended December 31, **2017**	2016
Share capital				
Balance at beginning of period	**$ 1,019.9**	$ 1,047.7	**$ 1,047.7**	$ 1,047.7
Share purchases (Note 7)	**(5.0)**	-	**(32.8)**	-
Balance at end of period	**$ 1,014.9**	$ 1,047.7	**$ 1,014.9**	$ 1,047.7
Contributed surplus and other equity				
Balance at beginning of period	**$ 31.9**	$ (4.6)	**$ (4.6)**	$ (74.5)
Forward purchase liability related to acquisitions (Note 11)	**-**	-	**36.5**	69.9
Balance at end of period	**$ 31.9**	$ (4.6)	**$ 31.9**	$ (4.6)
Retained earnings				
Balance at beginning of period	**$ 488.8**	$ 299.9	**$ 351.7**	$ 257.7
Net income attributable to equity shareholders of the Company	**131.8**	38.0	**345.4**	150.9
Defined benefit plan actuarial gains (losses), net of tax	**19.6**	13.8	**10.6**	(32.4)
Share purchases (Note 7)	**(10.7)**	-	**(57.9)**	-
Elimination of non-controlling interests (Note 11)	**-**	-	**(16.6)**	(20.0)
Acquisition of non-controlling interests	**-**	-	**(3.7)**	(4.5)
Balance at end of period	**$ 629.5**	$ 351.7	**$ 629.5**	$ 351.7
Accumulated other comprehensive income				
Balance at beginning of period	**$ 52.5**	$ 78.6	**$ 88.9**	$ 100.0
Foreign exchange translation of foreign operations, net of tax	**2.6**	10.4	**(33.8)**	(11.1)
Change in fair value of available-for-sale financial instruments, net of tax	**-**	(0.1)	**-**	-
Balance at end of period	**$ 55.1**	$ 88.9	**$ 55.1**	$ 88.9
Total equity attributable to equity shareholders of the Company	**$ 1,731.4**	$ 1,483.7	**$ 1,731.4**	$ 1,483.7
Non-controlling interests				
Balance at beginning of period	**$ 240.1**	$ 254.5	**$ 254.8**	$ 296.8
Net income attributable to non-controlling interests	**20.8**	6.2	**48.2**	53.0
Defined benefit plan actuarial gains (losses) attributable to non-controlling interests, net of tax	**10.1**	1.2	**8.5**	(5.3)
Change in fair value of available-for-sale financial instruments, net of tax	**-**	(0.1)	**-**	-
Distributions to non-controlling interests	**(1.8)**	(7.0)	**(8.4)**	(30.1)
Elimination of non-controlling interests (Note 11)	**-**	-	**(19.9)**	(39.7)
Acquisition of non-controlling interests	**(0.1)**	-	**(14.1)**	(19.9)
Non-controlling interests arising from investment (Note 5)	**0.5**	-	**0.5**	-
Balance at end of period	**$ 269.6**	$ 254.8	**$ 269.6**	$ 254.8
Total equity	**$ 2,001.0**	$ 1,738.5	**$ 2,001.0**	$ 1,738.5

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

Canfor Corporation
Condensed Consolidated Statements of Cash Flows

(millions of Canadian dollars, unaudited)	3 months ended December 31, 2017	2016	12 months ended December 31, 2017	2016
Cash generated from (used in):				
Operating activities				
Net income	**$ 152.6**	$ 44.2	**$ 393.6**	$ 203.9
Items not affecting cash:				
Amortization	**64.0**	63.6	**249.9**	242.3
Income tax expense	**49.0**	16.7	**132.8**	63.9
Long-term portion of deferred reforestation obligations	**9.3**	(3.7)	**5.4**	(4.8)
Foreign exchange loss (gain) on long-term debt	**0.7**	3.1	**(8.8)**	(4.1)
Changes in mark-to-market value of derivative financial instruments	**(0.9)**	(0.5)	**0.9**	(4.9)
Employee future benefits	**1.3**	3.3	**11.0**	13.0
Finance expense, net	**6.9**	8.0	**30.8**	32.8
Adjustment to accrued duties (Note 12)	**(44.9)**	-	**(44.9)**	-
Gain on sale of Anthony EACOM Inc., net	**0.3**	-	**(3.7)**	-
Gain on legal settlement, net	**-**	-	**-**	(15.5)
Equity income	**-**	(0.6)	**(0.6)**	(3.6)
Recovery on operations closure provisions	**-**	(2.0)	**(3.2)**	(2.0)
Write-down of advances to Licella (Note 10)	**-**	7.0	**-**	7.0
Other, net	**(3.2)**	1.3	**(8.3)**	1.7
Defined benefit plan contributions, net	**(10.4)**	(7.7)	**(28.8)**	(33.3)
Cash received from legal settlement	**-**	-	**-**	16.3
Income taxes paid, net	**(4.2)**	0.2	**(43.9)**	(29.9)
	220.5	132.9	**682.2**	482.8
Net change in non-cash working capital (Note 8)	**(63.9)**	28.1	**(72.1)**	101.0
	156.6	161.0	**610.1**	583.8
Financing activities				
Change in operating bank loans	**-**	(68.0)	**(28.0)**	(130.0)
Proceeds from long-term debt, net (Note 5)	**4.3**	-	**6.0**	-
Repayment of long-term debt (Note 5)	**(50.1)**	-	**(50.3)**	-
Finance expenses paid	**(6.7)**	(7.5)	**(21.1)**	(22.0)
Share purchases (Note 7)	**(12.0)**	-	**(87.0)**	-
Acquisition of non-controlling interests	**-**	-	**(17.7)**	(24.7)
Cash distributions paid to non-controlling interests	**(1.8)**	(5.4)	**(10.0)**	(28.5)
Other, net	**0.5**	-	**0.5**	-
	(65.8)	(80.9)	**(207.6)**	(205.2)
Investing activities				
Additions to property, plant and equipment, timber and intangible assets, net	**(94.0)**	(63.4)	**(252.1)**	(233.8)
Proceeds on disposal of property, plant and equipment	**1.1**	0.8	**11.4**	3.9
Proceeds on sale of Anthony EACOM Inc., net	**13.1**	-	**21.1**	-
Proceeds on sale of Lakeland Winton	**-**	-	**15.0**	-
Acquisitions (Note 11)	**(3.6)**	-	**(59.8)**	(83.9)
Advances to Licella (Note 10)	**-**	(3.5)	**-**	(7.0)
Other, net	**1.9**	(1.0)	**(2.0)**	3.0
	(81.5)	(67.1)	**(266.4)**	(317.8)
Foreign exchange gain (loss) on cash and cash equivalents	**0.1**	1.8	**(4.5)**	(1.7)
Increase in cash and cash equivalents*	**9.4**	14.8	**131.6**	59.1
Cash and cash equivalents at beginning of period*	**278.8**	141.8	**156.6**	97.5
Cash and cash equivalents at end of period*	**$ 288.2**	$ 156.6	**$ 288.2**	$ 156.6

*Cash and cash equivalents include cash on hand less unpresented cheques.

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

Canfor Corporation
Notes to the Condensed Consolidated Financial Statements

Three months and twelve months ended December 31, 2017 and December 31, 2016
(unaudited, millions of Canadian dollars unless otherwise noted)

1. Basis of Preparation

These condensed consolidated interim financial statements (the "financial statements") include the accounts of Canfor Corporation and its subsidiary entities, including Canfor Pulp Products Inc. ("CPPI"), hereinafter referred to as "Canfor" or "the Company."

These financial statements do not include all of the disclosures required by International Financial Reporting Standards ("IFRS") for interim or annual financial statements. Additional disclosures relevant to the understanding of these financial statements, including the accounting policies applied, can be found in the Company's Annual Report for the twelve months ended December 31, 2017, available at www.canfor.com or www.sedar.com.

These financial statements were authorized for issue by the Company's Board of Directors on February 22, 2018.

Certain comparative amounts for the prior year have been reclassified to conform to the current year's presentation.

Accounting Standards Issued and Not Applied

In May 2014, the International Accounting Standards Board ("IASB") issued IFRS 15, *Revenue from Contracts with Customers*, which will supersede IAS 18, *Revenue*, IAS 11, *Construction Contracts* and related interpretations. The new standard is effective for annual periods beginning on or after January 1, 2018. The Company has performed an assessment of the impact of the new standard, and has determined that adoption of this standard will have no significant impact on the Company's financial statements.

In July 2014, the IASB issued IFRS 9, *Financial Instruments*. The required adoption date for IFRS 9 is January 1, 2018. The Company has performed an assessment of the impact of the new standard, and has determined that adoption of this standard will have no significant impact on the Company's financial statements.

In January 2016, the IASB issued IFRS 16*, Leases*, which will supersede IAS 17, *Leases* and related interpretations. The required adoption date for IFRS 16 is January 1, 2019. IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. In addition, the nature of expenses related to those leases will change as IFRS 16 replaces straight-line operating lease expense with a depreciation expense for right-of-use assets and interest expense on lease liabilities.

It is expected that IFRS 16 will have an impact on the Company's financial statements with recognition of new assets and liabilities for its operating leases. The Company is still in the process of assessing the quantitative impact on its financial statements of this new standard. The Company's future minimum lease payments, on an undiscounted basis, under non-cancellable operating leases at December 31, 2017 are $42.5 million.

2. Seasonality of Operations

Canfor's financial results are impacted by seasonal factors such as weather and building activity. Adverse weather conditions can cause logging curtailments, which can affect the supply of raw materials to sawmills and pulp mills. Market demand also varies seasonally to some degree. For example, building activity and repair and renovation work, which affect demand for solid wood products, are generally stronger in the spring and summer months. Shipment volumes are affected by these factors as well as by global supply and demand conditions.

3. Income Taxes

	3 months ended December 31,		12 months ended December 31,	
(millions of Canadian dollars, unaudited)	**2017**	2016	**2017**	2016
Current	**$ (40.6)**	$ (2.8)	**$ (120.7)**	$ (37.9)
Deferred	**(8.4)**	(13.9)	**(12.1)**	(26.0)
Income tax expense	**$ (49.0)**	$ (16.7)	**$ (132.8)**	$ (63.9)

The reconciliation of income taxes calculated at the statutory rate to the actual income tax provision is as follows:

(millions of Canadian dollars, unaudited)	3 months ended December 31, **2017**	3 months ended December 31, 2016	12 months ended December 31, **2017**	12 months ended December 31, 2016
Income tax expense at statutory rate of 26.0%	**$ (52.5)**	$ (15.8)	**$ (136.9)**	$ (69.6)
Add (deduct):				
Non-taxable income related to non-controlling interests	**0.1**	0.4	**0.4**	6.7
Entities with different income tax rates and other tax adjustments	**(0.5)**	0.9	**(1.9)**	(0.4)
Permanent difference from capital gains and other non-deductible items	**0.1**	(2.2)	**1.8**	(0.6)
Change in substantively enacted tax legislation	**3.8**	-	**3.8**	-
Income tax expense	**$ (49.0)**	$ (16.7)	**$ (132.8)**	$ (63.9)

In the fourth quarter of 2017, the Provincial Government of British Columbia passed legislation increasing the provincial corporate tax rate from 11% to 12% effective January 1, 2018. In addition, the Federal Government of the United States passed tax reform legislation, which included a reduction of the federal corporate income tax rate from 35% to 21% effective January 1, 2018. Accordingly, a $3.8 million net tax recovery was recorded in net income in the fourth quarter of 2017 to record the impact of these rate changes on deferred taxes, with an additional $1.1 million being recorded in other comprehensive income (loss) as an income tax recovery on defined benefit plan actuarial losses.

In addition, a tax expense of $9.8 million, before the tax rate adjustment, in relation to the actuarial gains on the defined benefit plans (three months ended December 31, 2016 - expense of $5.3 million) was recorded in other comprehensive income (loss) for the three months ended December 31, 2017. For the twelve months ended December 31, 2017, the tax expense, before the tax rate adjustment, was $6.1 million (twelve months ended December 31, 2016 - recovery of $13.2 million on actuarial losses).

Also included in other comprehensive income (loss) for the three months ended December 31, 2017 was a tax expense of $0.3 million related to foreign exchange differences on translation of investments in foreign operations (three months ended December 31, 2016 - expense of $0.8 million). For the twelve months ended December 31, 2017, the tax recovery was $2.3 million (twelve months ended December 31, 2016 - recovery of $1.2 million).

4. Long-Term Investments and Other

(millions of Canadian dollars, unaudited)	**As at December 31, 2017**	As at December 31, 2016
Investments	**$ 22.5**	$ 14.7
Anti-dumping duties receivable	**44.9**	-
Equity investment in Anthony EACOM Inc.	**-**	16.8
Other deposits, loans, advances and long-term assets	**15.9**	19.2
	$ 83.3	$ 50.7

The anti-dumping duties receivable balance represents anti-dumping cash deposits paid in excess of the calculated expense accrued at December 31, 2017 (Note 12).

5. Long-Term Debt

Canfor has the following long-term debt, all of which is unsecured:

(millions of Canadian dollars, unaudited)		**As at December 31, 2017**		As at December 31, 2016
Canfor Corporation				
CAD$125.0 million, floating interest, repayable September 28, 2022	**$**	**125.0**	$	125.0
US$100.0 million, floating interest, repayable September 28, 2025		**125.5**		134.3
US$100.0 million, fixed interest of 4.4%, repayable in three equal tranches on October 2, 2023, 2024 and 2025		**125.5**		134.3
Other (US$7.7 million)[1]		**9.7**		4.4
Canfor Pulp Products Inc.				
CAD$50.0 million, floating interest		**-**		50.0
	$	**385.7**	$	448.0
Less: Current portion		**(0.3)**		-
Long-term portion	**$**	**385.4**	$	448.0

[1]Amount relates to net financing for specific capital projects at Canfor's U.S. sawmills.

In 2017, the Company extended the maturity date on its Canadian dollar denominated $125.0 million term loan from September 28, 2020 to September 28, 2022, and extended the maturity date on its US dollar denominated $100.0 million floating rate term loan from September 28, 2023 to September 28, 2025.

In the fourth quarter of 2017, the Company obtained $4.3 million (US$3.4 million) in net financing at an interest rate of 1.3% to fund certain capital projects at its U.S. sawmills. The structure of the financing arrangement included a 95% investment in a new subsidiary, resulting in the recognition of $0.5 million (US$0.4 million) in non-controlling interests.

On December 29, 2017, the Company's subsidiary CPPI repaid the full principal balance of its term debt of $50.0 million.

All borrowings of the Company feature similar financial covenants, including a maximum debt to total capitalization ratio.

As at December 31, 2017, the Company is in compliance with all covenants relating to its long-term debt.

6. Employee Future Benefits

The Company has several funded and unfunded defined benefit pension plans and defined contribution plans that provide benefits to substantially all salaried employees and certain hourly employees. Benefits are also provided to certain salaried and hourly employees through the Company's non-pension post-retirement benefit plans, which are unfunded. The defined benefit pension plans are based on years of service and final average salary. Canfor's other non-pension post-retirement benefit plans are non-contributory and include a range of health care and other benefits. Canfor also provides pension bridge benefits to certain eligible former employees.

Annuity contracts

In the three months and twelve months ended December 31, 2017, the Company purchased $45.8 million and $136.3 million, respectively, of buy-in annuities (three and twelve months ended December 31, 2016 - $216.1 million) through its defined benefit pension plans, increasing total annuities purchased to $422.9 million (December 31, 2016 - $286.6 million). Future cash flows from the annuities will match the amount and timing of benefits payable under the plans, substantially mitigating the exposure to future volatility in the related pension obligations. In the three and twelve months ended December 31, 2017, transaction costs of $1.3 million and $4.9 million, respectively, (three and twelve months ended December 31, 2016 - $19.5 million) related to the purchase were recognized in other comprehensive income (loss), principally reflecting the difference between the annuity rate compared to the discount rate used to value the obligations on a going concern basis.

Voluntary Retiree Buyout Program

In October 2017, certain non-pension post-retirement benefit plan members of Canfor and CPPI were given an offer to receive lump-sum payment in exchange for settlement of their future non-pension post-retirement benefit obligations under the Voluntary Retiree Buyout Program ("the Program"). Acceptance of the offer constitutes an irrevocable election to terminate future benefit obligations by plan members, and as such, settlement was recorded at the time of election by members. The deadline for elections made under the Program was October 31, 2017, and the resulting payments were made from November 2017 through January 2018. Under the program, $7.4 million of non-pension post-retirement benefit obligations were settled and derecognized in the fourth quarter of 2017, resulting in a settlement adjustment of $3.0 million, which was included in operating income. For the year ended December 31, 2017, $3.3 million was paid out under the Program, with an additional $1.1 million paid in January 2018.

Medical Services Plan changes

On November 2, 2017, the Legislative Assembly of British Columbia enacted the *Budget Measures Implementation Act, 2017,* which included a 50% reduction in Medical Services Plan ("MSP") premiums effective January 1, 2018. This change in legislation was recognized in actuarial financial assumptions in the fourth quarter of 2017, and resulted in a $49.0 million pre-tax reduction of the non-pension post-retirement benefit obligation and a corresponding gain recognized through other comprehensive income (loss).

In addition, in measuring the accrued benefit obligation at December 31, 2017, the MSP growth trend rate actuarial financial assumption was reduced from 4.5% to 2.0% resulting in an additional $14.7 million pre-tax gain in the fourth quarter of 2017.

Significant assumptions

The actuarial assumptions used in measuring Canfor's benefit plan provisions and benefit costs are as follows:

	December 31, 2017		December 31, 2016	
	Defined Benefit Pension Plans	**Other Benefit Plans**	Defined Benefit Pension Plans	Other Benefit Plans
Discount rate	**3.4%**	**3.4%**	3.9%	3.9%
Rate of compensation increases	**3.0%**	**n/a**	3.0%	n/a
Initial medical cost trend rate	**n/a**	**6.5%**	n/a	7.0%
Ultimate medical cost trend rate	**n/a**	**4.5%**	n/a	4.5%
Year ultimate rate is reached	**n/a**	**2022**	n/a	2022

7. Earnings per Share and Normal Course Issuer Bid

Basic net income per share is calculated by dividing the net income attributable to common equity shareholders by the weighted average number of common shares outstanding during the period.

	3 months ended December 31,		12 months ended December 31,	
	2017	2016	**2017**	2016
Weighted average number of common shares	**129,189,217**	132,804,573	**131,449,999**	132,804,573

On March 7, 2017, the Company renewed its normal course issuer bid whereby it can purchase for cancellation up to 6,640,227 common shares or approximately 5% of its issued and outstanding common shares as of March 1, 2017. The renewed normal course issuer bid is set to expire on March 6, 2018. During the fourth quarter of 2017, Canfor purchased 633,176 common shares for $15.7 million (an average of $24.80 per common share), of which $12.0 million was paid during the period. For the twelve months ended December 31, 2017, the Company purchased 4,159,593 common shares for $90.7 million (an average price of $21.81 per common share), of which $32.8 million was charged to share capital and $57.9 million was charged to retained earnings. As at December 31, 2017, based on trade date, there were 128,644,980 common shares of the Company outstanding.

Subsequent to year end, the Company purchased 19,500 shares for $0.5 million (an average of $25.64 per common share). As at February 22, 2018, based on trade date, there were 128,625,480 common shares of the Company outstanding.

Under a separate normal course issuer bid, CPPI purchased 7,575 common shares in the fourth quarter of 2017 for $0.1 million (an average of $13.20 per common share) from non-controlling shareholders. For the twelve months ended December 31, 2017, CPPI purchased 1,448,109 common shares for $17.8 million (an average of $12.29 per common share). As at December 31, 2017, and February 22, 2018, Canfor's ownership interest in CPPI was 54.8%.

8. Net Change in Non-Cash Working Capital

(millions of Canadian dollars, unaudited)	3 months ended December 31, 2017	3 months ended December 31, 2016	12 months ended December 31, 2017	12 months ended December 31, 2016
Accounts receivable	**$ 13.3**	$ 34.9	**$ (24.3)**	$ 32.5
Inventories	**(75.8)**	(13.2)	**(85.7)**	45.7
Prepaid expenses	**8.2**	29.2	**(3.8)**	4.2
Accounts payable, accrued liabilities and current portion of deferred reforestation obligations	**(9.6)**	(22.8)	**41.7**	18.6
Net decrease (increase) in non-cash working capital	**$ (63.9)**	$ 28.1	**$ (72.1)**	$ 101.0

9. Segment Information

Canfor has two reportable segments (lumber segment and pulp and paper segment), which offer different products and are managed separately because they require different production processes and marketing strategies.

Sales between segments are accounted for at prices that approximate fair value. These include sales of residual fibre from the lumber segment to the pulp and paper segment for use in the pulp production process.

The Company's panels business does not meet the criteria to be reported fully as a separate segment and is included in Unallocated & Other below.

(millions of Canadian dollars, unaudited)	Lumber	Pulp & Paper	Unallocated & Other	Elimination Adjustment	Consolidated
3 months ended December 31, 2017					
Sales to external customers	**$ 859.3**	**$ 322.9**	**$ -**	**$ -**	**$ 1,182.2**
Sales to other segments	**44.0**	**-**	**-**	**(44.0)**	**-**
Operating income (loss)	**154.9**	**66.8**	**(7.5)**	**-**	**214.2**
Amortization	**45.2**	**18.8**	**-**	**-**	**64.0**
Capital expenditures[2]	**64.5**	**28.1**	**1.4**	**-**	**94.0**
3 months ended December 31, 2016					
Sales to external customers	$ 785.7	$ 257.8	$ -	$ -	$ 1,043.5
Sales to other segments	32.3	-	-	(32.3)	-
Operating income (loss)	57.4	22.9	(6.3)	-	74.0
Amortization	43.6	19.2	0.8	-	63.6
Capital expenditures[2]	45.1	18.3	-	-	63.4
12 months ended December 31, 2017					
Sales to external customers	**$ 3,461.1**	**$ 1,197.7**	**$ -**	**$ -**	**$ 4,658.8**
Sales to other segments	**173.1**	**0.2**	**-**	**(173.3)**	**-**
Operating income (loss)	**441.9**	**154.6**	**(39.1)**	**-**	**557.4**
Amortization	**175.5**	**74.4**	**-**	**-**	**249.9**
Capital expenditures[2]	**163.6**	**83.1**	**5.4**	**-**	**252.1**
Identifiable assets	**2,285.1**	**815.6**	**387.6**	**-**	**3,488.3**
12 months ended December 31, 2016					
Sales to external customers	$ 3,133.2	$ 1,101.7	$ -	$ -	$ 4,234.9
Sales to other segments	147.1	0.2	-	(147.3)	-
Operating income (loss)	237.4	98.2	(29.5)	-	306.1
Amortization	164.4	73.8	4.1	-	242.3
Capital expenditures[2]	168.8	64.0	1.0	-	233.8
Identifiable assets	2,268.9	785.2	223.0	-	3,277.1

[2]Capital expenditures represent cash paid for capital assets during the periods. Pulp & Paper includes capital expenditures by CPPI that were partially financed by government grants. Capital expenditures exclude the assets purchased as part of the acquisition of Wynndel Box and Lumber Ltd. in 2016.

10. Licella Pulp Joint Venture

On May 27, 2016, CPPI and Licella Fibre Fuel Pty Ltd. ("Licella") agreed to form a joint venture under the name Licella Pulp Joint Venture to investigate opportunities to integrate Licella's Catalytic Hydrothermal Reactor platform into CPPI's pulp mills to economically convert biomass into next generation biofuels and biochemicals. Licella is a subsidiary of Ignite Energy Resources Ltd. ("IER") an Australian energy technology development company.

Under IFRS 11, *Joint Arrangements*, the joint venture is classified as a joint operation and CPPI will recognize its assets, liabilities and transactions, including its share of those incurred jointly, in its consolidated financial statements. For the three months ended December 31, 2017, the Company's share of the joint venture's expenses was $0.3 million (three months ended December 31, 2016 - $0.2 million). For the twelve months ended December 31, 2017, the Company's share of the joint venture's expenses was $1.1 million (twelve months ended December 31, 2016 - $0.6 million), which have been recognized in manufacturing and product costs. The Company is required to contribute the first $20.0 million of any funding requirements, including cash and non-cash contributions, to the joint venture, of which $1.7 million has been contributed as at December 31, 2017.

In conjunction with the joint venture agreement and CPPI's commitment to innovation and the development of potentially transforming technology, CPPI provided a convertible credit facility to IER, the parent company of Licella, which matures on June 21, 2019. The advances on this credit facility are convertible, at CPPI's option, into common shares of IER.

With regards to the convertible credit facility, during 2016, CPPI advanced $7.0 million to Licella and exercised its option to convert $3.5 million of the amount advanced into common shares of IER. Due to the inherent nature of this type of innovation and technology development, CPPI considers these advances to be substantially research and development in nature. As a result, at December 31, 2016, CPPI recognized losses of $7.0 million in other income (expense). This reflects the Company's consideration of the intrinsic risk associated with these advances. No advances were made by CPPI in 2017.

11. Acquisitions

(a) US South

On January 2, 2015, the Company completed the first phase of the acquisition of Beadles Lumber Company & Balfour Lumber Company Inc. ("Beadles & Balfour") for total consideration of $51.6 million (US$44.0 million), representing an initial 55% interest.

On January 2, 2017, the Company completed the final phase of the acquisition of Beadles & Balfour for $41.8 million (US$31.1 million) bringing Canfor's interest in Beadles & Balfour to 100%. Upon completion of the final phase of the acquisition, the forward purchase liability of $41.8 million and non-controlling interest of $19.9 million were derecognized, and $36.5 million was recorded in other equity. In addition, $16.6 million was charged to retained earnings reflecting Canfor's election to account for the non-controlling interest related to Beadles & Balfour as the non-controlling share of the fair value of the net identifiable assets at the acquisition date.

On July 29, 2016, Canfor completed the final phase of the acquisition of Scotch & Gulf Lumber, LLC ("Scotch Gulf") for $61.6 million (US$54.9 million) bringing Canfor's interest in Scotch Gulf to 100%. Upon completion of the final phase of the acquisition, the forward purchase liability of $71.8 million and non-controlling interest of $39.7 million were derecognized, and $69.9 million was credited to other equity. In addition, $20.0 million was charged to retained earnings reflecting Canfor's election to account for the non-controlling interest related to Scotch Gulf as the non-controlling share of the fair value of the net identifiable assets at the acquisition date.

All of the acquisitions were accounted for in accordance with IFRS 3, *Business Combinations*.

(b) Wynndel Box and Lumber Ltd.

On April 15, 2016, the Company completed the acquisition of the assets of Wynndel Box and Lumber Ltd. ("Wynndel") for total consideration of $40.3 million. The acquisition has been accounted for in accordance with IFRS 3, *Business Combinations*.

The acquisition of Wynndel included a sawmill located in the Creston Valley of British Columbia, which produces premium boards and customized specialty wood products with an annual production capacity of 80 million board feet. Canfor acquired the assets of Wynndel, including approximately 65,000 cubic meters of annual harvesting rights in the Kootenay Lake Timber Supply Area.

At the acquisition date, the Company paid $19.7 million, and a working capital true-up payment of $2.6 million was paid in early July 2016. On April 5, 2017, the Company paid an instalment of $14.4 million. The final instalment of $3.6 million was paid on October 13, 2017.

12. Countervailing and Anti-Dumping Duties

On November 25, 2016, a petition was filed by the US Lumber Coalition to the US Department of Commerce ("DOC") and the US International Trade Commission ("ITC") alleging certain subsidies and administered fees below the fair market value of timber that favour Canadian lumber producers, an assertion the Canadian industry and Provincial and Federal Governments strongly deny and have successfully disproven in international courts in the past. Canfor was selected by the DOC as a "mandatory respondent" to the countervailing and anti-dumping investigations and is subject to company specific countervailing and anti-dumping duties.

On April 24, 2017, the DOC announced its preliminary countervailing duty ("CVD") of 20.26% specific to Canfor, to be posted by cash deposits or bonds on the exports of softwood lumber to the US effective April 28, 2017 to August 25, 2017. Following this period, CVD duties were not applicable on lumber shipments destined to the US from August 26, 2017 to December 27, 2017. On June 23, 2017, the DOC announced its preliminary anti-dumping duty determination ("ADD") of 7.72% specific to Canfor, to be posted by cash deposits or bonds on the exports of softwood lumber to the US effective June 30, 2017.

Final countervailing and anti-dumping duty determinations were announced by the DOC on November 2, 2017, while the ITC issued an affirmative determination of injury on December 7, 2017. As a result, Canfor was issued a final ADD rate of 7.28% effective November 8, 2017, and was subject to countervailing duties on Canadian lumber exports destined to the US at a reduced rate of 13.24%, effective December 28, 2017. Notwithstanding the final rates established in the DOC's investigation, the final liability for the assessment of CVD and ADD will not be determined until an official administrative review of the respective period is complete. The first period of review will be based on sales and cost data from April 2017 to December 2018, and is currently anticipated to be completed in 2020.

For the three months ended December 31, 2017, the Company reduced its countervailing expense accrual by $14.0 million reflecting the difference in the DOC's preliminary and final countervailing duty rates. In the case of the ADD, cash deposits are posted at the final published ADD rate of 7.28% as determined by the DOC, however for accounting purposes, the expense is being accrued at 1.1% reflecting Canfor's best estimate of the rate applicable to its product shipment profile, as determined by applying the DOC's methodology to current sales and cost data. Canfor will reassess its estimate of the anti-dumping duty rate at the end of each quarter in 2018 by applying the DOC's methodology to updated sales and cost data as this becomes available. These estimates may result in a material adjustment to the Income Statement on a quarterly basis during the first period of review. Accordingly, for the three months ended December 31, 2017, the Company reduced its anti-dumping duty accrual by $30.9 million reflecting the difference in the DOC's preliminary rate of 7.72%, and the Company's estimated accrual rate of 1.1% for the applicable period in 2017.

The cumulative countervailing and anti-dumping duty cash deposits in excess of the calculated expense accrued at December 31, 2017 is $14.0 million and $30.9 million, respectively. These balances are being carried as receivables under 'long-term investments and other'.

For the three months ended December 31, 2017, the Company recorded a net countervailing and anti-dumping duty recovery of $23.4 million reflecting the above adjustment. For the twelve months ended December 31, 2017 the Company has recorded a net countervailing and anti-dumping duty expense of $44.3 million.

Canfor and other Canadian forest product companies, the Federal Government and Canadian Provincial Governments categorically deny the US allegations and strongly disagree with the current countervailing and anti-dumping determinations made by the DOC. Canada has proceeded with legal challenges under NAFTA and through the WTO, where Canadian litigation has proven successful in the past.