CANFOR CORPORATION

2017

QUARTER TWO

INTERIM REPORT

FOR THE THREE MONTHS ENDED JUNE 30, 2017

To our Shareholders

Canfor Corporation reported net income attributable to shareholders ("shareholder net income") of $81.3 million, or $0.61 per share, for the second quarter of 2017, compared to shareholder net income of $66.1 million, or $0.50 per share, for the first quarter of 2017 and a net income attributable to shareholders of $36.0 million, or $0.27 per share, for the second quarter of 2016. For the six months ended June 30, 2017, the Company's shareholder net income was $147.4 million, or $1.11 per share, compared to $62.0 million, or $0.47 per share, for the six months ended June 30, 2016.

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

(millions of Canadian dollars, except per share amounts)	**Q2 2017**	Q1 2017	**YTD 2017**	Q2 2016	YTD 2016
Sales	**$ 1,185.2**	$ 1,126.2	**$ 2,311.4**	$ 1,022.3	$ 2,090.2
Operating income before amortization, as reported	**$ 193.1**	$ 169.1	**$ 362.2**	$ 127.1	$ 252.8
Operating income, as reported	**$ 131.0**	$ 106.8	**$ 237.8**	$ 69.6	$ 134.7
Adjusted operating income before amortization[1]	**$ 227.9**	$ 169.1	**$ 397.0**	$ 111.6	$ 237.3
Adjusted operating income[1]	**$ 165.8**	$ 106.8	**$ 272.6**	$ 54.1	$ 119.2
Net income[2]	**$ 81.3**	$ 66.1	**$ 147.4**	$ 36.0	$ 62.0
Net income per share, basic and diluted[2]	**$ 0.61**	$ 0.50	**$ 1.11**	$ 0.27	$ 0.47
Adjusted shareholder net income	**$ 104.2**	$ 59.3	**$ 163.5**	$ 26.5	$ 47.4
Adjusted shareholder net income per share, basic and diluted	**$ 0.78**	$ 0.45	**$ 1.23**	$ 0.20	$ 0.36

[1] Adjusted for countervailing and anti-dumping duty deposits of $34.8 million expensed in the second quarter of 2017 and a one-time gain of $15.5 million related to a legal settlement in the second quarter of 2016.
[2] Attributable to equity shareholders of the Company

The Company's adjusted shareholder net income for the second quarter of 2017 was $104.2 million, or $0.78 per share, compared to an adjusted shareholder net income of $59.3 million, or $0.45 per share, for the first quarter of 2017, and adjusted shareholder net income of $26.5 million, or $0.20 per share, for the second quarter of 2016. For the six months ended June 30, 2017, the Company's adjusted shareholder net income was $163.5 million, or $1.23 per share compared to $47.4 million, or $0.36 per share, for the six months ended June 30, 2016.

The Company reported operating income of $131.0 million for the second quarter of 2017, up $24.2 million from reported operating income of $106.8 million for the first quarter of 2017, as a solid improvement in lumber segment operating earnings more than offset slightly lower pulp and paper segment earnings. Improved lumber segment results primarily reflected higher Western Spruce/Pine/Fir ("SPF") and Southern Yellow Pine ("SYP") unit sales realizations and a return to more normal operating conditions following the challenging weather experienced in the first quarter of 2017, offset in part by higher market-based stumpage in Western Canada. For the pulp and paper segment, solid increases in unit sales realizations largely offset the impact of scheduled maintenance outages taken during the quarter at the Northwood Northern Bleached Softwood Kraft ("NBSK") pulp mill and Taylor Bleached Chemi-Thermo Mechanical Pulp ("BCTMP") mill.

Reported results in the second quarter of 2017 include $34.8 million related to the expensing of the US Department of Commerce's preliminary countervailing duty ("CVD") rate of 20.26% effective April 28, 2017, and preliminary anti-dumping duty ("ADD") rate of 7.72% effective June 30, 2017, on exports from Canada to the United States. The expensing of these duties follows the accounting treatment adopted during the last softwood dispute. Notwithstanding, Canfor and other Canadian forest product companies, the Federal Government and Canadian Provincial Governments continue to totally refute the US allegations and the preliminary CVD and ADD determinations recently made by the US Department of Commerce ("DOC"). After adjusting for the duties, operating income was $165.8 million for the second quarter of 2017, up $59.0 million from the first quarter of 2017.

Lumber demand in North America remained relatively stable in the second quarter of 2017, with US housing starts averaging 1,164,000 units on a seasonally adjusted basis, down 6% from the previous quarter, and in line with the second quarter of 2016. Single-family starts, which consume a higher proportion of lumber, were broadly in line with the previous quarter, while multi-family starts were down compared to the first quarter of 2017. In Canada, housing starts remained solid, averaging 205,000 units on a seasonally adjusted basis. Offshore lumber demand from China, Japan and other regions continued to improve through the second quarter, particularly for the Company's higher-value lumber products.

On a reported basis, Western SPF lumber unit sales realizations were up from the previous quarter as higher average Western SPF lumber prices and a 1 cent, or 2%, weaker Canadian dollar more than offset the impact of the aforementioned countervailing duty. The average benchmark North American Random Lengths Western SPF 2x4

#2&Btr price was up US$40 per Mfbm, or 11%, compared to the first quarter of 2017, with similar increases seen across wider-width dimensions. Benchmark lumber prices increased significantly leading up to the preliminary countervailing duty announcement on April 24, 2017, supported by solid underlying North American and offshore demand. Duties assessed by the DOC and expensed in the quarter equated to approximately $35 per Mfbm. SYP unit sales realizations were slightly higher than the prior quarter, as a US$13 per Mfbm increase in the SYP East 2x6 #2 price and a higher-value sales mix more than offset a 1% decline in the SYP East 2x4 #2 price, which was down US$6 per Mfbm from the first quarter of 2017. Prices for other wider-width SYP products were broadly in line with the prior quarter.

Total lumber shipments were moderately higher than the previous quarter reflecting a return to more normal levels following the weather-related transportation challenges experienced in the first quarter of 2017. Total lumber production, at 1.3 billion board feet, was broadly in line with the prior quarter, as overall improved productivity rates were offset by increased statutory holidays in the current quarter and capital related downtime in the US South. Lumber unit manufacturing costs in the second quarter of 2017 were in line with the previous quarter as the positive impact of productivity gains and stable log costs in the US South offset higher market-based stumpage and increased purchased wood costs in Western Canada. The latter was mostly attributable to unseasonably wet weather conditions which impacted log deliveries through the second quarter.

NBSK pulp average list prices to China, as published by RISI, moved up by US$25 per tonne, reflecting the carry-over of strong demand from the previous quarter well into the spring maintenance period. Towards the end of the current quarter, demand started to show weakness in some regions, notably China. NBSK pulp unit sales realizations materially improved compared to the previous quarter, reflecting the strong pricing through most of the quarter, as well as quarter-over-quarter pricing on shipments of orders taken in the previous quarter, and a weaker Canadian dollar. BCTMP US-dollar list prices continued to trend positively through the second quarter of 2017 and sales realizations were further benefited from the weaker Canadian dollar. Lower energy revenue in the current quarter reflected both scheduled maintenance downtime and seasonally lower energy prices.

Pulp shipment and production volumes were down 18% and 13%, respectively, from the previous quarter principally reflecting approximately 40,000 tonnes of lower production available for sale, largely due to the Company's scheduled maintenance outages and, to a lesser extent, several operational upsets. Shipments for the first quarter of 2017 also included a 14,000 tonne vessel shipment that slipped from December 2016. Pulp unit manufacturing costs were up from the previous quarter principally as a result of the aforementioned outages, and, to a lesser extent, market-related increases in fibre costs, which more than offset seasonally lower energy prices and usage.

Looking ahead, the US housing market is forecast to continue its slow but gradual recovery through the balance of 2017. North American lumber consumption is projected to improve reflecting steady demand in the residential construction market and continued strength from the repair and remodelling sector. Wide-width SYP and speciality lumber prices are anticipated to improve through the third quarter of 2017 reflecting stronger seasonal demand. The Company anticipates continued marketplace volatility as the DOC investigations progress and final determinations are made. For the Company's key offshore lumber markets, demand is anticipated to remain solid through the third quarter of 2017.

In the pulp and paper segment, global pulp markets are currently anticipated to see lower operating rates in the second half of 2017 with the introduction of significant new pulp capacity in the latter part of 2017 and into 2018. For the month of July 2017, Canfor Pulp announced a decrease of US$10 per tonne for NBSK pulp list prices to China, while NBSK pulp list prices to North America are unchanged from June 2017.

Results in the third quarter of 2017 will reflect a scheduled maintenance outage at Canfor Pulp's Intercontinental pulp mill, with a projected 8,000 tonnes of reduced NBSK pulp production, as well as higher associated maintenance costs and lower projected shipment volumes.

Notwithstanding the impact to our dedicated employees, the severe forest fire season in Western Canada to date has had no material financial impact on Canfor's operations. A continuation of the current hot and dry weather in the BC Interior will increase the risks of material disruption to the Company's fibre procurement efforts, operations and transportation.

Michael J. Korenberg
Chairman

Don B. Kayne
President and Chief Executive Officer

Canfor Corporation
Second Quarter 2017
Management's Discussion and Analysis

This interim Management's Discussion and Analysis ("MD&A") provides a review of Canfor Corporation's ("Canfor" or "the Company") financial performance for the quarter ended June 30, 2017 relative to the quarters ended March 31, 2017 and June 30, 2016, and the financial position of the Company at June 30, 2017. It should be read in conjunction with Canfor's unaudited interim consolidated financial statements and accompanying notes for the quarters ended June 30, 2017 and 2016, as well as the 2016 annual MD&A and the 2016 audited consolidated financial statements and notes thereto, which are included in Canfor's Annual Report for the year ended December 31, 2016 (available at www.canfor.com). The financial information in this interim MD&A has been prepared in accordance with International Financial Reporting Standards ("IFRS"), which is the required reporting framework for Canadian publicly accountable enterprises.

Throughout this discussion, reference is made to Operating Income before Amortization and Adjusted Operating Income before Amortization which Canfor considers to be a relevant indicator for measuring trends in the performance of each of its operating segments and the Company's ability to generate funds to meet its debt repayment and capital expenditure requirements. Reference is also made to Adjusted Shareholder Net Income (calculated as Shareholder Net income (loss) less specific items affecting comparability with prior periods – for the full calculation, see the reconciliation included in the section "Analysis of Specific Material Items Affecting Comparability of Shareholder Net Income" and Adjusted Shareholder Net Income per Share (calculated as Adjusted Shareholder Net Income divided by the weighted average number of shares outstanding during the period). Operating Income before Amortization and Adjusted Shareholder Net Income and Adjusted Shareholder Net Income per Share are not generally accepted earnings measures and should not be considered as an alternative to net income or cash flows as determined in accordance with IFRS. As there is no standardized method of calculating these measures, Canfor's Operating Income before Amortization, Adjusted Shareholder Net Income and Adjusted Shareholder Net Income per Share may not be directly comparable with similarly titled measures used by other companies. Reconciliations of Operating Income before Amortization to Operating Income and Adjusted Shareholder Net Income to Net Income (Loss) reported in accordance with IFRS are included in this MD&A. Throughout this discussion, reference is made to the current quarter, which refers to the results for the second quarter of 2017.

Factors that could impact future operations are also discussed. These factors may be influenced by both known and unknown risks and uncertainties that could cause the actual results to be materially different from those stated in this discussion. 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; currency exchange rates; interest rates; changes in law and public policy; the outcome of labour and trade disputes; and opportunities available to or pursued by Canfor.

All financial references are in millions of Canadian dollars unless otherwise noted. The information in this report is as at July 25, 2017.

Forward Looking Statements

Certain statements in this MD&A constitute "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. Words such as "expects", "anticipates", "projects", "intends", "plans", "will", "believes", "seeks", "estimates", "should", "may", "could", and variations of such words and similar expressions are intended to identify such forward-looking statements. These statements are based on management's current expectations and beliefs and actual events or results may differ materially. There are many factors that could cause such actual events or results expressed or implied by such forward-looking statements to differ materially from any future results expressed or implied by such statements. Forward-looking statements are based on current expectations and the Company assumes no obligation to update such information to reflect later events or developments, except as required by law.

SECOND QUARTER 2017 OVERVIEW

Selected Financial Information and Statistics

(millions of Canadian dollars, except per share amounts)	Q2 2017	Q1 2017	YTD 2017	Q2 2016	YTD 2016
Operating income (loss) by segment:					
Lumber	**$ 110.4**	$ 83.7	**$ 194.1**	$ 71.5	$ 104.9
Pulp and Paper	**$ 31.5**	$ 35.2	**$ 66.7**	$ 5.2	$ 44.3
Unallocated and Other[1]	**$ (10.9)**	$ (12.1)	**$ (23.0)**	$ (7.1)	$ (14.5)
Total operating income	**$ 131.0**	$ 106.8	**$ 237.8**	$ 69.6	$ 134.7
Add: Amortization[2]	**$ 62.1**	$ 62.3	**$ 124.4**	$ 57.5	$ 118.1
Total operating income before amortization	**$ 193.1**	$ 169.1	**$ 362.2**	$ 127.1	$ 252.8
Add (deduct):					
Working capital movements	**$ 89.1**	$ (105.2)	**$ (16.1)**	$ 128.8	$ 70.8
Defined benefit plan contributions, net	**$ (6.6)**	$ (6.0)	**$ (12.6)**	$ (5.2)	$ (10.4)
Income taxes received (paid), net	**$ (19.3)**	$ 1.2	**$ (18.1)**	$ (3.0)	$ (16.6)
Gain on sale of Anthony EACOM Inc.[3]	**$ -**	$ (4.0)	**$ (4.0)**	$ -	$ -
Gain on legal settlement, net[4]	**$ -**	$ -	**$ -**	$ (15.5)	$ (15.5)
Other operating cash flows, net[5]	**$ (5.9)**	$ 17.7	**$ 11.8**	$ (8.9)	$ (6.9)
Cash from operating activities	**$ 250.4**	$ 72.8	**$ 323.2**	$ 223.3	$ 274.2
Add (deduct):					
Finance expenses paid	**$ (3.2)**	$ (3.2)	**$ (6.4)**	$ (6.9)	$ (11.0)
Distributions paid to non-controlling interests	**$ (2.2)**	$ (3.8)	**$ (6.0)**	$ (7.3)	$ (11.5)
Capital additions, net	**$ (61.7)**	$ (38.9)	**$ (100.6)**	$ (66.2)	$ (113.3)
Acquisitions	**$ (14.4)**	$ (41.8)	**$ (56.2)**	$ (19.7)	$ (19.7)
Proceeds received from sale of Anthony EACOM Inc. [3]	**$ 1.2**	$ 5.4	**$ 6.6**	$ -	$ -
Proceeds received from sale of Lakeland Winton[6]	**$ 15.0**	$ -	**$ 15.0**	$ -	$ -
Repayment of long-term debt	**$ (0.1)**	$ -	**$ (0.1)**	$ -	$ -
Proceeds from long-term debt	**$ -**	$ 1.7	**$ 1.7**	$ -	$ -
Advances to Licella	**$ -**	$ -	**$ -**	$ (3.5)	$ (3.5)
Foreign exchange loss on cash and cash equivalents	**$ (2.0)**	$ (0.1)	**$ (2.1)**	$ (0.3)	$ (4.2)
Other, net	**$ (4.3)**	$ 3.5	**$ (0.8)**	$ (18.6)	$ (22.0)
Change in cash / operating loans	**$ 178.6**	$ (4.4)	**$ 174.3**	$ 100.8	$ 89.0
ROIC – Consolidated period-to-date[7]	**4.8%**	4.0%	**8.8%**	2.2%	3.6%
Average exchange rate (US$ per C$1.00)[8]	**$ 0.744**	$ 0.756	**$ 0.750**	$ 0.776	$ 0.752

[1] Increase in Unallocated and Other in 2017 largely attributable to higher legal costs related to the expiry of the Softwood Lumber Agreement.
[2] Amortization includes amortization of certain capitalized major maintenance costs.
[3] On March 31, 2017, Canfor sold its 50% interest in Anthony EACOM Inc. for net proceeds of $21.4 million and recognized a $4.0 million gain. Cash proceeds of $5.4 million was received in the first quarter of 2017, with the balance payable in equal installments over a three year period.
[4] Gain relates to a $16.3 million settlement of a claim with respect to logistics services, net of a $0.8 million impairment of related machinery and equipment.
[5] Further information on operating cash flows can be found in the Company's unaudited interim consolidated financial statements.
[6] On July 1, 2015 Canfor sold its 33.3% interest in Lakeland Mills Ltd. and Winton Global Lumber Ltd for consideration of $30.0 million. The first installment of $15.0 million was received on July 1, 2015, and the second installment for $15.0 million was received in the second quarter of 2017.
[7] Consolidated Return on Invested Capital ("ROIC") is equal to operating income/loss plus realized gains/losses on derivatives, equity income/loss from joint venture and other income/expense, all net of minority interest, divided by the average invested capital during the period. Invested capital is equal to capital assets, plus long-term investments and net non-cash working capital, all excluding minority interest components.
[8] Source – Bank of Canada (monthly average rate for the period).

Analysis of Specific Material Items Affecting Comparability of Shareholder Net Income

After-tax impact, net of non-controlling interests (millions of Canadian dollars, except per share amounts)	Q2 2017	Q1 2017	YTD 2017	Q2 2016	YTD 2016
Shareholder net income, as reported	**$ 81.3**	$ 66.1	**$ 147.4**	$ 36.0	$ 62.0
Foreign exchange gain on long-term debt	**$ (2.9)**	$ (1.0)	**$ (3.9)**	$ (0.3)	$ (7.2)
Countervailing and anti-dumping duty deposits	**$ 25.8**	$ -	**$ 25.8**	$ -	$ -
Gain on derivative financial instruments	**$ -**	$ (2.4)	**$ (2.4)**	$ (2.3)	$ (0.5)
Gain on sale of Anthony EACOM Inc.	**$ -**	$ (3.4)	**$ (3.4)**	$ -	$ -
Gain on legal settlement, net	**$ -**	$ -	**$ -**	$ (6.9)	$ (6.9)
Net impact of above items	**$ 22.9**	$ (6.8)	**$ 16.1**	$ (9.5)	$ (14.6)
Adjusted shareholder net income	**$ 104.2**	$ 59.3	**$ 163.5**	$ 26.5	$ 47.4
Shareholder net income per share (EPS), as reported	**$ 0.61**	$ 0.50	**$ 1.11**	$ 0.27	$ 0.47
Net impact of above items per share	**$ 0.17**	$ (0.05)	**$ 0.12**	$ (0.07)	$ (0.11)
Adjusted shareholder net income per share	**$ 0.78**	$ 0.45	**$ 1.23**	$ 0.20	$ 0.36

The Company reported operating income of $131.0 million for the second quarter of 2017, up $24.2 million from reported operating income of $106.8 million for the first quarter of 2017, as a solid improvement in lumber segment operating earnings more than offset slightly lower pulp and paper segment earnings. Improved lumber segment results primarily reflected higher Western Spruce/Pine/Fir ("SPF") and Southern Yellow Pine ("SYP") unit sales realizations and a return to more normal operating conditions following the challenging weather experienced in the first quarter of 2017, offset in part by higher market-based stumpage in Western Canada. For the pulp and paper segment, solid increases in unit sales realizations largely offset the impact of scheduled maintenance outages taken during the quarter at the Northwood Northern Bleached Softwood Kraft ("NBSK") pulp mill and Taylor Bleached Chemi-Thermo Mechanical Pulp ("BCTMP") mill.

Reported results in the second quarter of 2017 include $34.8 million related to the expensing of the US Department of Commerce's preliminary countervailing duty ("CVD") rate of 20.26% effective April 28, 2017, and preliminary anti-dumping duty ("ADD") rate of 7.72% effective June 30, 2017, on exports from Canada to the United States. The expensing of these duties follows the accounting treatment adopted during the last softwood dispute. Notwithstanding, Canfor and other Canadian forest product companies, the Federal Government and Canadian Provincial Governments continue to totally refute the US allegations and the preliminary CVD and ADD determinations recently made by the US Department of Commerce ("DOC"). After adjusting for the duties, operating income was $165.8 million for the second quarter of 2017, up $59.0 million from the first quarter of 2017.

The current quarter's adjusted operating income was up $111.7 million from adjusted operating income of $54.1 million for the second quarter of 2016, reflecting an $89.2 million increase in lumber segment earnings and a $26.3 million increase in earnings for the pulp and paper segment. The increase in lumber segment earnings primarily reflected higher lumber unit sales realizations as a result of significantly higher US-dollar benchmark lumber prices and a 4% weaker Canadian dollar, offset in part by market driven increases in log costs in Western Canada in the current period. Pulp and paper segment results reflected notable increases in NBSK pulp and BCTMP unit sales realizations, reflecting higher US-dollar market prices combined with the weaker Canadian dollar. These increases were partially offset by increased pulp and paper unit manufacturing costs principally due to higher fibre costs in the current quarter, and to a lesser extent, higher chemical pricing and lower pulp shipments. Similar scheduled maintenance outages were taken in both periods.

OPERATING RESULTS BY BUSINESS SEGMENT

Lumber

<u>Selected Financial Information and Statistics – Lumber</u>

(millions of Canadian dollars, unless otherwise noted)	Q2 2017	Q1 2017	YTD 2017	Q2 2016	YTD 2016
Sales	**$ 904.3**	$ 817.1	**$ 1,721.4**	$ 765.3	$ 1,537.9
Operating income before amortization	**$ 154.0**	$ 127.2	**$ 281.2**	$ 110.9	$ 185.1
Operating income	**$ 110.4**	$ 83.7	**$ 194.1**	$ 71.5	$ 104.9
Countervailing and anti-dumping duty deposits[9]	**$ 34.8**	$ -	**$ 34.8**	$ -	$ -
Gain on legal settlement, net[10]	**$ -**	$ -	**$ -**	$ (15.5)	$ (15.5)
Adjusted operating income	**$ 145.2**	$ 83.7	**$ 228.9**	$ 56.0	$ 89.4
Average SPF 2x4 #2&Btr lumber price in US$[11]	**$ 388**	$ 348	**$ 368**	$ 311	$ 292
Average SPF price in Cdn$[11]	**$ 521**	$ 460	**$ 491**	$ 401	$ 388
Average SYP 2x4 #2 lumber price in US$[12]	**$ 476**	$ 482	**$ 479**	$ 437	$ 422
U.S. housing starts (thousand units SAAR)[13]	**1,164**	1,238	**1,201**	1,158	1,156
Production – SPF lumber (MMfbm)[14]	**951.5**	936.4	**1,887.9**	955.1	1,921.6
Production – SYP lumber (MMfbm)[14]	**358.3**	361.8	**720.1**	334.5	670.5
Shipments – SPF lumber (MMfbm)[15]	**1,002.0**	925.0	**1,927.0**	995.6	2,001.9
Shipments – SYP lumber (MMfbm)[15]	**353.3**	345.9	**699.2**	348.3	697.2

[9] Adjusted for preliminary countervailing and anti-dumping duty deposits expensed for accounting purposes.
[10] Adjusted for a one-time gain of $15.5 million related to a legal settlement in the second quarter of 2016.
[11] Western Spruce/Pine/Fir, per thousand board feet (Source – Random Lengths Publications, Inc.).
[12] Southern Yellow Pine, Eastside, per thousand board feet (Source – Random Lengths Publications, Inc.).
[13] Source – US Census Bureau, seasonally adjusted annual rate ("SAAR").
[14] Excluding production of trim blocks.
[15] Canfor-produced lumber, including lumber purchased for remanufacture, excluding trim blocks and wholesale shipments.

<u>Markets</u>

Lumber demand in North America remained relatively stable in the second quarter of 2017, with US housing starts averaging 1,164,000 units on a seasonally adjusted basis, down 6% from the previous quarter, and in line with the second quarter of 2016. Single-family starts, which consume a higher proportion of lumber, were broadly in line with the previous quarter, while multi-family starts were down compared to the first quarter of 2017. In Canada, housing starts remained solid, averaging 205,000 units on a seasonally adjusted basis. Offshore lumber demand from China, Japan and other regions continued to improve through the second quarter, particularly for the Company's higher-value lumber products.

In addition to solid underlying demand, benchmark lumber prices increased significantly leading up to the preliminary countervailing duty announcement on April 24, 2017.

<u>Sales</u>

Sales for the lumber segment for the second quarter of 2017 were $904.3 million, compared to $817.1 million in the previous quarter and $765.3 million for the second quarter of 2016. The 11% increase in sales revenue compared to the prior quarter largely reflected higher Western SPF and SYP unit sales realizations, and in part, increased shipment volumes in the current quarter. Relative to the second quarter of 2016, the 18% increase in sales revenue primarily reflected higher Western SPF and SYP benchmark lumber prices and the weaker Canadian dollar.

Total lumber shipments, at 1.36 billion board feet, were moderately higher than the previous quarter and in line with the second quarter of 2016, with the increase over the former period reflecting a return to more normal levels following the weather-related transportation challenges experienced largely in the first quarter of 2017.

On a reported basis, Western SPF lumber unit sales realizations increased compared to the previous quarter as higher average Western SPF lumber prices and the 2% weaker Canadian dollar more than offset deposits paid based on the preliminary CVD rate. The average benchmark North American Random Lengths Western SPF 2x4 #2&Btr price was up US$40 per Mfbm, or 11%, compared to the first quarter of 2017, with similar increases seen across wider-width dimensions. Before taking account of the impact of duties, Western SPF lumber unit sales realizations increased significantly compared to the previous quarter. SYP unit sales realizations were slightly higher than the prior quarter, as a US$13 per Mfbm increase in the SYP East 2x6 #2 price and a higher-value sales mix more than offset the 1% decline in the SYP East 2x4 #2 price. Prices for other wider-width SYP products were broadly in line with the prior quarter.

Compared to the second quarter of 2016, reported lumber unit sales realizations were up significantly as higher US-dollar Western SPF and SYP benchmark lumber prices and a 4% weaker Canadian dollar more than offset the impact of the aforementioned duties in the current quarter. The average North American Random Lengths Western SPF 2x4 #2&Btr price was up US$77 per Mfbm, or 25%, while the SYP East 2x4 #2 price was up US$39 per Mfbm, or 9%.

Total residual revenue in the current quarter was slightly higher than the prior quarter as increased pricing for sawmill residual chips and a seasonal improvement in chip quality in Western Canada was reduced in part by lower chip pricing in the US South. Current quarter results also reflected seasonally lower log sales compared to the previous quarter due to reduced timber harvesting during the spring break-up period in Western Canada. Log sales were slightly lower than the second quarter of 2016 as wet weather conditions resulted in lower harvesting volumes in the current quarter. Pellet sales revenues in the current quarter were higher than both comparative quarters largely reflecting the timing of shipments.

Operations

Total lumber production, at 1.31 billion board feet, was broadly in line with the prior quarter, as overall improved productivity rates were largely offset by increased statutory holidays in the current quarter and capital related downtime in the US South. Total lumber production was slightly higher than the second quarter of 2016, which for the most part reflected improved productivity rates.

Lumber unit manufacturing costs in the second quarter of 2017 were in line with the previous quarter as the positive impact of productivity gains and stable log costs in the US South offset higher market-based stumpage and increased purchased wood costs in Western Canada resulting from the wet weather conditions, which disrupted log deliveries through the current quarter. Compared to the second quarter of 2016, unit manufacturing costs were moderately higher reflecting market and weather-driven increases in purchased wood costs and stumpage.

Pulp and Paper

Selected Financial Information and Statistics – Pulp and Paper[16]

(millions of Canadian dollars, unless otherwise noted)	**Q2 2017**	Q1 2017	**YTD 2017**	Q2 2016	YTD 2016
Sales	**$ 280.9**	$ 309.1	**$ 590.0**	$ 257.0	$ 552.3
Operating income before amortization[17]	**$ 50.0**	$ 54.0	**$ 104.0**	$ 22.1	$ 79.9
Operating income	**$ 31.5**	$ 35.2	**$ 66.7**	$ 5.2	$ 44.3
Average NBSK pulp price delivered to China – US$[18]	**$ 670**	$ 645	**$ 658**	$ 617	$ 603
Average NBSK pulp price delivered to China – Cdn$[18]	**$ 901**	$ 853	**$ 877**	$ 795	$ 802
Production – pulp (000 mt)	**275.2**	317.1	**592.3**	279.6	601.4
Production – paper (000 mt)	**33.6**	34.6	**68.2**	32.1	67.4
Shipments – pulp (000 mt)	**276.3**	337.1	**613.4**	287.2	606.3
Shipments – paper (000 mt)	**35.5**	33.7	**69.2**	38.5	73.4

[16] Includes 100% of Canfor Pulp Products Inc., which is consolidated in Canfor's operating results. Pulp production and shipment volumes presented are for both NBSK pulp and BCTMP.
[17] Amortization includes amortization of certain capitalized major maintenance costs.
[18] Per tonne, NBSK pulp list price delivered to China (Resource Information Systems, Inc.).

Markets

After two successive quarters of solid gains, global softwood pulp markets plateaued in the second quarter of 2017. Pulp softwood inventories as at the end of May 2017, were in the balanced range at 29 days of supply, a decrease of one day from February 2017[19] (market conditions are generally considered balanced when inventories are in the 27-30 days of supply range). By the end of the second quarter, however, demand had weakened in some regions, particularly China.

Global shipments of bleached softwood pulp increased by 2.5%, for the first five months of 2017 when compared to the first five months of 2016, driven primarily by increased year-to-date shipments to North America and Asian countries, including China[20].

Sales

Total pulp shipments in the second quarter of 2017 were 276,300 tonnes, down 60,800 tonnes, or 18%, from the previous quarter and down 10,900 tonnes, or 4%, from the second quarter of 2016. Compared to the previous quarter, the decrease in pulp shipments for the most part reflected lower pulp production in the current quarter, combined with the impact of the slippage of a 14,000 tonne vessel shipment to Asia from December 2016 into January 2017 recognized in the previous quarter. The modest reduction in pulp shipments compared to the second quarter of 2016 primarily reflected a drawdown of inventory in the second quarter of 2016.

The average China US-dollar NBSK pulp list price of US$670 per tonne, as published by RISI, was up US$25 per tonne, or 4%, from the first quarter of 2017. Average NBSK pulp unit sales realizations materially improved compared to the previous quarter, reflecting the strong pricing through most of the quarter, as well as quarter-over-quarter pricing on shipments of orders taken in the previous quarter. This was combined with the favourable impact of a 1 cent or 2% weaker Canadian dollar. The continued positive momentum of BCTMP markets in the second quarter when compared to the first quarter of 2017, combined with the weaker Canadian dollar, had a notable favourable impact on average BCTMP unit sales realizations.

Compared to the second quarter of 2016, the average China US-dollar NBSK pulp list price in the current quarter of 2017 was up US$53 per tonne, or 9%. CPPI's average NBSK pulp unit sales realizations were materially higher than the second quarter of 2016, reflecting higher market prices to China combined with the weaker Canadian dollar, offset in part by increases in customer discounts. BCTMP unit sales realizations were considerably higher compared to the second quarter of 2016, reflecting the growth in BCTMP market demand and a weaker Canadian dollar.

Compared to the first quarter of 2017, energy revenues were down, reflecting the seasonally lower power generation due to the aforementioned scheduled maintenance outages in the quarter, combined with seasonally lower energy prices. Energy revenues in the current quarter were broadly in line with the second quarter of 2016. Energy revenues are anticipated to return to more normalized levels in the third quarter of 2017.

Paper unit sales realizations in the second quarter of 2017 were up slightly from the previous quarter primarily reflecting the 2% weaker Canadian dollar. Compared to the same quarter of 2016, paper unit sales realizations were moderately higher, due to the positive impact of the 4% weaker Canadian dollar as well as a higher proportion of shipments to the North American market and a favourable change in sales mix.

Operations

Pulp production in the second quarter of 2017 at 275,200 tonnes was down 41,900 tonnes, or 13%, from the first quarter of 2017 and broadly in line with the second quarter of 2016. During the second quarter of 2017, CPPI completed scheduled maintenance outages at the Northwood NBSK pulp mill as well as at the BCTMP Taylor mill, which when combined with several operational upsets, reduced pulp production by approximately 40,000 tonnes. There were no maintenance outages in the previous quarter of 2017, while in the second quarter of 2016, CPPI completed major scheduled outages at the Northwood and Intercontinental NBSK pulp mills and a minor scheduled maintenance outage at the Prince George NBSK pulp mill, which also reduced pulp production by approximately 40,000 tonnes.

[19] World 20 data is based on twenty producing countries representing 80% of world chemical market pulp capacity and is based on information compiled and prepared by the Pulp and Paper Products Council ("PPPC").

[20] As reported by PPPC statistics.

Pulp unit manufacturing costs were materially higher in the current quarter compared to the first quarter of 2017, principally reflecting costs associated with the aforementioned scheduled maintenance outages, offset somewhat by seasonally lower energy prices and usage in the current period. Fibre costs were higher compared to the previous quarter as increased prices for sawmill residual chips combined with a seasonal improvement in chip quality more than offset a lower proportion of higher-cost whole log chips.

Compared to the second quarter of 2016, pulp unit manufacturing costs saw a modest increase, principally due to higher fibre costs and to a lesser extent, higher chemical pricing, marginally offset by the timing of certain maintenance spend. Increased fibre costs in the current period largely reflected the higher market prices for sawmill residual chips, and to a lesser degree, higher delivered freight costs.

Paper unit manufacturing costs saw moderate increases compared to both the first quarter of 2017 and the second quarter of 2016. The increases compared to the prior quarter were primarily driven by significantly higher slush pulp costs and, to a lesser extent, increases in maintenance spend and higher chemical costs in the current quarter. Compared to the second quarter of 2016, the increases in paper unit manufacturing costs, principally reflected the higher slush pulp costs in the current quarter.

Unallocated and Other Items

Selected Financial Information

(millions of Canadian dollars)	**Q2 2017**	Q1 2017	**YTD 2017**	Q2 2016	YTD 2016
Operating loss of Panels operations[21]	**$ (0.5)**	$ (0.7)	**$ (1.2)**	$ (0.3)	$ (1.0)
Corporate costs	**$ (10.4)**	$ (11.4)	**$ (21.8)**	$ (6.8)	$ (13.5)
Finance expense, net	**$ (7.8)**	$ (8.0)	**$ (15.8)**	$ (8.4)	$ (16.6)
Foreign exchange gain on long-term debt	**$ 3.4**	$ 1.1	**$ 4.5**	$ 0.4	$ 8.3
Gain on derivative financial instruments	**$ -**	$ 3.2	**$ 3.2**	$ 3.1	$ 0.7
Other income (expense), net	**$ (3.2)**	$ 2.2	**$ (1.0)**	$ 0.4	$ (9.7)

[21] The Panels operations include the Company's PolarBoard oriented strand board ("OSB") plant, which is currently indefinitely idled and its Tackama plywood plant, which was closed in January 2012.

Corporate costs were $10.4 million for the second quarter of 2017, $1.0 million lower than the previous quarter and $3.6 million higher than the second quarter of 2016, with the variances being largely attributable to legal costs related to the expiry of the Softwood Lumber Agreement.

Net finance expense at $7.8 million for the second quarter of 2017 was down slightly from both comparative quarters. In the second quarter of 2017, the Company recognized a foreign exchange gain on its US-dollar term debt held by Canadian entities due to the stronger Canadian dollar at the end of the quarter as compared to the end of the previous quarter (see further discussion on the term debt financing in the "Liquidity and Financial Requirements" section).

The Company uses a variety of derivative financial instruments at times as partial economic hedges against unfavourable changes in foreign exchange rates, energy costs, lumber prices, and interest rates. No realized or unrealized gains or losses were recorded on the Company's derivatives instruments in the second quarter of 2017. In the first quarter of 2017, the Company recorded a net gain of $3.2 million related to its derivatives instruments.

Other expense, net of $3.2 million in the second quarter 2017 largely reflected unfavourable foreign exchange movements on US-dollar denominated cash, receivables and payables. Other income, net for the first quarter of 2017 included a $4.0 million gain related to the Company's sale of its 50% interest in Anthony EACOM Inc. on March 31, 2017, offset in part by foreign exchange movements on US-dollar denominated cash, receivables and payables.

Other Comprehensive Income (Loss)

The following table summarizes Canfor's Other Comprehensive Income (Loss) for the comparable periods:

(millions of Canadian dollars)	Q2 2017	Q1 2017	YTD 2017	Q2 2016	YTD 2016
Foreign exchange translation differences for foreign operations, net of tax	**$ (13.3)**	$ (3.2)	**$ (16.5)**	$ (0.8)	$ (25.3)
Defined benefit actuarial gains (losses), net of tax	**$ (26.0)**	$ 2.4	**$ (23.6)**	$ (33.6)	$ (51.2)
Other comprehensive income (loss), net of tax	**$ (39.3)**	$ (0.8)	**$ (40.1)**	$ (34.4)	$ (76.5)

In the second quarter of 2017, the Company recorded an after-tax loss of $26.0 million in relation to changes in the valuation of the Company's employee future benefit plans. Compared to the first quarter of 2017, the loss principally reflected a 0.4% decrease in the discount rate used to value the employee future benefit plans partially offset by the return generated on plan assets. This compared to an after-tax gain of $2.4 million in the previous quarter and an after-tax loss of $33.6 million in the second quarter of 2016.

During the second quarter of 2017, the Company purchased $90.5 million of annuities through its defined benefit plans in order to mitigate its exposure to the future volatility fluctuations in the related pension obligations. At purchase of these annuities, transaction costs of $4.6 million were recognized in Other Comprehensive Income principally reflecting the difference in the annuity rate (which is comparable to solvency rates) as compared to the discount rate used to value the pension obligations on a going concern basis. Following the purchase, total annuities purchased by the Company amounted to $377.1 million, representing approximately 41% of defined benefit pension plan liabilities. A further 24% was partially hedged against changes in future discount rates through the plan's investment in debt securities.

In addition, the Company recorded a loss of $13.3 million in the second quarter of 2017 related to foreign exchange differences for foreign operations due to the strengthening of the Canadian dollar relative to the US dollar at the end of the quarter. This compared to a loss of $3.2 million in the previous quarter and a loss of $0.8 million in the second quarter of 2016.

SUMMARY OF FINANCIAL POSITION

The following table summarizes Canfor's cash flow and selected ratios for and as at the end of the following periods:

(millions of Canadian dollars, except for ratios)	Q2 2017	Q1 2017	YTD 2017	Q2 2016	YTD 2016
Increase in cash and cash equivalents[22]	**$ 140.7**	$ 7.7	**$ 148.4**	$ 25.1	$ 64.2
Operating activities	**$ 250.4**	$ 72.8	**$ 323.2**	$ 223.3	$ 274.2
Financing activities	**$ (52.9)**	$ 3.9	**$ (49.0)**	$ (109.6)	$ (75.9)
Investing activities	**$ (56.8)**	$ (69.0)	**$ (125.8)**	$ (88.6)	$ (134.1)
Ratio of current assets to current liabilities			**2.4:1**		1.5:1
Net debt to capitalization			**6.9%**		20.3%

[22] Increase in cash and cash equivalents shown before foreign exchange translation on cash and cash equivalents.

Changes in Financial Position

Cash generated from operating activities was $250.4 million in the second quarter of 2017, compared to $72.8 million in the previous quarter and $223.3 million in the second quarter of 2016. The increase in operating cash flows from the previous quarter primarily reflected a seasonal drawdown of log inventories during the spring break-up period in Western Canada, and to a lesser extent, higher cash earnings. Compared to the second quarter of 2016, the increase in operating cash flows was primarily attributable to higher cash earnings, offset in part by higher non-cash working capital balances and increased income tax installment payments in the current quarter.

Cash used in financing activities was $52.9 million in the current quarter, compared to cash generated of $3.9 million in the previous quarter and cash used of $109.6 million in the same quarter of 2016. During the current quarter, the Company made cash distributions of $2.2 million to non-controlling shareholders, down $1.6 million from the previous quarter and down $5.1 million from the same quarter in 2016. In the second quarter of 2017, CPPI purchased 607,900 common shares under its Normal Course Issuer Bid for $7.5 million, with $7.4 million paid in the second quarter of 2017, while Canfor did not purchase any common shares under its Normal Course Issuer Bid (see

"Liquidity and Financial Requirements" section for more details). The Company had no balance outstanding on its Canadian operating loan facility at the end of the second quarter of 2017, a decrease of $40.0 million from the prior quarter and down $129.0 million from the end of the second quarter of 2016.

Cash used for investing activities was $56.8 million in the current quarter, compared to $69.0 million in the previous quarter and $88.6 million in the same quarter of 2016. Capital additions were $61.7 million, up $22.8 million from the previous quarter and down $4.5 million from the second quarter of 2016. Current quarter capital expenditures included various smaller high-returning capital projects aimed at increasing drying capacity and productivity, with an increasing proportion of capital expenditures in the US South, including upgrades at the Company's sawmills in Arkansas and Georgia. In the pulp and paper segment, capital expenditures primarily related to maintenance-of-business capital associated with the aforementioned maintenance outages during the quarter and, to a lesser extent, capital expenditures associated with various energy and capital improvement projects. Investing activities in the current quarter also included proceeds of $15.0 million related to the July 1, 2015 sale of the Company's investment in Lakeland Mills Ltd. and Winton Global Lumber Ltd., and a $14.4 million payment related to the Company's April 2016 acquisition of Wynndel Box and Lumber Ltd.

Subsequent to quarter end, Canfor Pulp announced plans to undertake two significant energy capital projects at its Northwood NBSK and Taylor BCTMP mills, at an estimated cost of $105 million.

Liquidity and Financial Requirements

At June 30, 2017, the Company on a consolidated basis had cash of $302.9 million, no amounts drawn on its operating loans, and an additional $50.5 million reserved for several standby letters of credit. During the quarter, the Company repaid $40.0 million of its operating loans, and at period end had total available undrawn operating loans of $459.5 million.

Excluding CPPI, the Company's bank operating loans at June 30, 2017 totaled $350.0 million, of which no amounts were drawn, and an additional $41.5 million reserved for several standby letters of credit, the majority of which related to unregistered pension plans. Interest is payable on the operating loans at floating rates based on the lenders' Canadian prime rate, bankers acceptances, US dollar base rate or US dollar LIBOR rate, plus a margin that varies with the Company's debt to total capitalization ratio.

At June 30, 2017, CPPI had an undrawn $110.0 million bank operating loan facility and $9.0 million in letters of credit outstanding under the operating loan facility. The Company and CPPI remained in compliance with the covenants relating to their operating loans and long-term debt during the quarter, and expect to remain so for the foreseeable future.

The Company's consolidated net debt to total capitalization at the end the second quarter of 2017 was 6.9%. For Canfor, excluding CPPI, net debt to capitalization at the end of the second quarter of 2017 was 9.9%.

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 first and second quarters of 2017, Canfor did not purchase any common shares. As at July 25, 2017, there were 132,804,543 common shares of the Company outstanding. Under a separate normal course issuer bid, CPPI purchased 607,900 common shares in the second quarter of 2017 for $7.5 million (an average of $12.34 per common share), of which $7.4 million was paid in the period, with the balance paid in early July. In the first half of 2017, CPPI purchased 872,103 common shares for $10.5 million (an average of $12.04 per common share). Canfor and CPPI may purchase more shares through the balance of 2017 subject to the terms of their normal course issuer bids.

As a result of CPPI's share repurchases in the current quarter, Canfor's ownership interest in CPPI increased to 54.4% at June 30, 2017, up 0.5% from the end of the prior quarter. As at July 25, 2017, Canfor's ownership interest in CPPI was 54.5% reflecting share repurchases subsequent to June 30, 2017.

Licella Pulp Joint Venture

In March 2017, the Canadian Federal Government through its Sustainable Development Technology Canada program announced the funding over several years of approximately $13.2 million, contingent on future spending, to allow the Licella Pulp Joint Venture to further develop and demonstrate a technology that will economically convert biomass into biofuels and biochemicals.

OUTLOOK

Lumber

Looking ahead, the US housing market is forecast to continue its slow but gradual recovery through the balance of 2017. North American lumber consumption is projected to improve reflecting steady demand in the residential construction market and continued strength from the repair and remodelling sector. Wide-width SYP and speciality lumber prices are anticipated to improve through the third quarter of 2017 reflecting stronger seasonal demand. The Company anticipates continued marketplace volatility as the DOC investigations progress and final determinations are made.

For the Company's key offshore lumber markets, demand is anticipated to remain solid through the third quarter of 2017.

Pulp and Paper

Global pulp markets are currently anticipated to see lower operating rates in the second half of 2017, with the introduction of significant new pulp capacity in the latter part of 2017 and into 2018.

For the month of July 2017, CPPI announced a decrease of US$10 per tonne for NBSK pulp list prices to China, while NBSK pulp list prices to North America are unchanged from June 2017.

Results in the third quarter of 2017 will reflect a scheduled maintenance outage at the Intercontinental pulp mill, with a projected 8,000 tonnes of reduced NBSK pulp production, as well as higher associated maintenance costs and lower projected shipment volumes.

OUTSTANDING SHARES

At July 25, 2017, there were 132,804,543 common shares of the Company outstanding.

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with International Financial Reporting Standards requires management to make estimates and assumptions that affect the amounts recorded in the financial statements. On an ongoing basis, management reviews its estimates, including those related to useful lives for amortization, impairment of long-lived assets, certain accounts receivable, pension and other employee future benefit plans and asset retirement and deferred reforestation obligations based upon currently available information. While it is reasonably possible that circumstances may arise which cause actual results to differ from these estimates, management does not believe it is likely that any such differences will materially affect the Company's financial condition.

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 a preliminary assessment of the impact of the new standard, and currently anticipates no significant impact on its financial statements, with the assessment to be finalized in the second half of 2017.

In July 2014, the IASB issued IFRS 9, *Financial Instruments*. The required adoption date for IFRS 9 is January 1, 2018 and the Company does not anticipate the new standard to have a significant impact on its 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 and the Company is in the process of assessing the impact on the financial statements of this new standard.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

During the quarter ended June 30, 2017, there were no changes in the Company's internal controls over financial reporting that materially affected, or would be reasonably likely to materially affect, such controls.

RISKS AND UNCERTAINTIES

A comprehensive discussion of risks and uncertainties is included in the Company's 2016 annual statutory reports which are available on www.canfor.com or www.sedar.com.

In addition to exposure to changes in product prices and foreign exchange, the Company'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 affects demand for lumber products, is generally stronger in the spring and summer months. Shipment volumes are affected by these factors as well as by global supply and demand conditions. Net income is also impacted by fluctuations in Canadian dollar exchange rates, the revaluation to the period end rate of US dollar denominated working capital balances, US dollar denominated debt and revaluation of outstanding derivative financial instruments.

While the severe forest fire season in Western Canada to date has had no material financial impact on Canfor's operations a continuation of the current hot and dry weather in the BC Interior will increase the risks of material disruption to the Company's fibre procurement efforts, operations and transportation.

The final countervailing and anti-dumping duty determinations will be aligned for US Department of Commerce administrative purposes. This alignment could result in the suspension of preliminary countervailing duty cash deposit requirements after the initial four month period has expired on August 26, 2017 and until an aligned final determination decision is established. The final countervailing and anti-dumping determinations may differ from the preliminary determinations. Canfor continues to cooperate with the Provincial and Federal Governments of Canada who have indicated they will vigorously defend the interests of the industry.

SELECTED QUARTERLY FINANCIAL INFORMATION

	Q2 2017	Q1 2017	Q4 2016	Q3 2016	Q2 2016	Q1 2016	Q4 2015	Q3 2015
Sales and income (millions of Canadian dollars)								
Sales	**$ 1,185.2**	$ 1,126.2	$ 1,043.5	$ 1,101.2	$ 1,022.3	$ 1,067.9	$ 1,053.0	$ 989.9
Operating income	**$ 131.0**	$ 106.8	$ 74.0	$ 97.4	$ 69.6	$ 65.1	$ 31.8	$ 8.5
Net income	**$ 90.9**	$ 77.5	$ 44.2	$ 66.4	$ 51.0	$ 42.3	$ 19.6	$ 1.4
Shareholder net income (loss)	**$ 81.3**	$ 66.1	$ 38.0	$ 50.9	$ 36.0	$ 26.0	$ 1.6	$ (17.3)
Per common share (Canadian dollars)								
Shareholder net income (loss) – basic and diluted	**$ 0.61**	$ 0.50	$ 0.29	$ 0.38	$ 0.27	$ 0.20	$ 0.01	$ (0.13)
Book value[23]	**$ 12.14**	$ 11.81	$ 11.17	$ 10.70	$ 9.92	$ 9.91	$ 10.02	$ 10.00
Common Share Repurchases								
Share volume repurchased (000 shares)	**-**	-	-	-	-	-	1,050	-
Shares repurchased (millions of Canadian dollars)	**$ -**	$ -	$ -	$ -	$ -	$ -	$ 20.0	$ -
Statistics								
Lumber shipments (MMfbm)[24]	**1,355**	1,271	1,272	1,340	1,344	1,355	1,347	1,337
Pulp shipments (000 mt)	**276**	337	275	320	287	319	356	307
Average exchange rate – US$/Cdn$	**$ 0.744**	$ 0.756	$ 0.750	$ 0.766	$ 0.776	$ 0.728	$ 0.749	$ 0.764
Average Western SPF 2x4 #2&Btr lumber price (US$)	**$ 388**	$ 348	$ 315	$ 322	$ 311	$ 272	$ 263	$ 269
Average SYP (East) 2x4 #2 lumber price (US$)	**$ 476**	$ 482	$ 445	$ 414	$ 437	$ 407	$ 400	$ 331
Average NBSK pulp list price delivered to China (US$)	**$ 670**	$ 645	$ 595	$ 595	$ 617	$ 590	$ 600	$ 638

[23] Book value per common share is equal to shareholders' equity at the end of the period, divided by the number of common shares outstanding at the end of the period.

[24] Canfor-produced lumber, including lumber purchased for remanufacture and excluding trim blocks and shipments of wholesale lumber.

Other material factors that impact the comparability of the quarters are noted below:

After-tax impact, net of non-controlling interests (millions of Canadian dollars, except for per share amounts)	Q2 2017	Q1 2017	Q4 2016	Q3 2016	Q2 2016	Q1 2016	Q4 2015	Q3 2015
Shareholder net income (loss), as reported	**$ 81.3**	$ 66.1	$ 38.0	$ 50.9	$ 36.0	$ 26.0	$ 1.6	$ (17.3)
Foreign exchange (gain) loss on long-term debt	**$ (2.9)**	$ (1.0)	$ 2.7	$ 0.9	$ (0.3)	$ (6.9)	$ 5.1	$ -
Countervailing and anti-dumping duty deposits[25]	**$ 25.8**	$ -	$ -	$ -	$ -	$ -	$ -	$ -
(Gain) loss on derivative financial instruments	**$ -**	$ (2.4)	$ (1.5)	$ (0.1)	$ (2.3)	$ 1.8	$ (1.2)	$ 9.3
Gain on sale of Anthony EACOM Inc.[26]	**$ -**	$ (3.4)	$ -	$ -	$ -	$ -	$ -	$ -
Mill closure provisions[27]	**$ -**	$ -	$ (1.5)	$ -	$ -	$ -	$ -	$ 14.4
Gain on legal settlement, net[28]	**$ -**	$ -	$ -	$ -	$ (6.9)	$ -	$ -	$ -
Costs associated with pension plan legislation changes	**$ -**	$ -	$ -	$ -	$ -	$ -	$ 2.4	$ -
Net impact of above items	**$ 22.9**	$ (6.8)	$ (0.3)	$ 0.8	$ (9.5)	$ (5.1)	$ 6.3	$ 23.7
Adjusted shareholder net income	**$ 104.2**	$ 59.3	$ 37.7	$ 51.7	$ 26.5	$ 20.9	$ 7.9	$ 6.4
Shareholder net income (loss) per share (EPS), as reported	**$ 0.61**	$ 0.50	$ 0.29	$ 0.38	$ 0.27	$ 0.20	$ 0.01	$ (0.13)
Net impact of above items per share[29]	**$ 0.17**	$ (0.05)	$ -	$ 0.01	$ (0.07)	$ (0.04)	$ 0.05	$ 0.18
Adjusted net income per share[29]	**$ 0.78**	$ 0.45	$ 0.29	$ 0.39	$ 0.20	$ 0.16	$ 0.06	$ 0.05

[25] Adjusted for preliminary countervailing and anti-dumping duty deposits expensed for accounting purposes.

[26] On March 31, 2017, Canfor sold its 50% interest in Anthony EACOM Inc. for net proceeds of $21.4 million and recognized a $4.0 million gain (before-tax).

[27] During the third quarter of 2015, the Company recorded costs of $19.4 million (before-tax) associated with the announced closure of the Canal Flats sawmill. In the fourth quarter of 2016, $2.0 million (before-tax) of the closure provision was reversed as a result of lower estimated demolition costs.

[28] During the second quarter of 2016, the Company recorded a gain of $15.5 million related to a settlement of a legal claim with respect to logistics services net of non-controlling interest and related impairment.

[29] The year-to-date net impact of the adjusting items per share and adjusted net income (loss) per share may not equal the sum of the quarterly per share amounts due to share purchases and rounding.

Canfor Corporation
Condensed Consolidated Balance Sheets

(millions of Canadian dollars, unaudited)		**As at June 30, 2017**		As at December 31, 2016
ASSETS				
Current assets				
Cash and cash equivalents	**$**	**302.9**	$	156.6
Accounts receivable - Trade		**209.3**		164.2
- Other		**39.1**		66.5
Inventories (Note 2)		**555.2**		549.0
Prepaid expenses and other		**66.3**		50.6
Total current assets		**1,172.8**		986.9
Property, plant and equipment		**1,423.8**		1,460.8
Timber licenses		**526.1**		532.7
Goodwill and other intangible assets		**233.0**		238.8
Long-term investments and other (Note 3)		**33.7**		50.7
Retirement benefit surplus (Note 5)		**5.8**		5.9
Deferred income taxes, net		**2.7**		1.3
Total assets	**$**	**3,397.9**	$	3,277.1
LIABILITIES				
Current liabilities				
Operating loans (Note 4(a))	**$**	**-**	$	28.0
Accounts payable and accrued liabilities		**439.5**		384.1
Current portion of deferred reforestation obligations		**48.5**		48.5
Forward purchase liability (Note 11(a))		**-**		41.7
Current portion of long-term debt (Note 4(b))		**0.3**		-
Total current liabilities		**488.3**		502.3
Long-term debt (Note 4(b))		**440.1**		448.0
Retirement benefit obligations (Note 5)		**333.2**		302.2
Deferred reforestation obligations		**65.8**		56.9
Other long-term liabilities		**22.3**		23.7
Deferred income taxes, net		**196.3**		205.5
Total liabilities	**$**	**1,546.0**	$	1,538.6
EQUITY				
Share capital	**$**	**1,047.7**	$	1,047.7
Contributed surplus and other equity		**31.9**		(4.6)
Retained earnings		**460.4**		351.7
Accumulated other comprehensive income		**72.4**		88.9
Total equity attributable to equity shareholders of the Company		**1,612.4**		1,483.7
Non-controlling interests		**239.5**		254.8
Total equity	**$**	**1,851.9**	$	1,738.5
Total liabilities and equity	**$**	**3,397.9**	$	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, M.J. Korenberg

Canfor Corporation
Condensed Consolidated Statements of Income

(millions of Canadian dollars, except per share data, unaudited)	3 months ended June 30, **2017**	3 months ended June 30, 2016	6 months ended June 30, **2017**	6 months ended June 30, 2016
Sales	**$ 1,185.2**	$ 1,022.3	**$ 2,311.4**	$ 2,090.2
Costs and expenses				
Manufacturing and product costs	**757.8**	714.6	**1,524.6**	1,464.6
Freight and other distribution costs	**169.0**	156.4	**330.0**	324.3
Countervailing and anti-dumping duties (Note 13)	**34.8**	-	**34.8**	-
Amortization	**62.1**	57.5	**124.4**	118.1
Selling and administration costs	**30.3**	23.8	**58.6**	48.2
Restructuring, mill closure and severance costs	**0.2**	1.5	**1.8**	2.5
	$ 1,054.2	$ 953.8	**$ 2,074.2**	$ 1,957.7
Equity income (Note 3)	**-**	1.1	**0.6**	2.2
Operating income	**131.0**	69.6	**237.8**	134.7
Finance expense, net	**(7.8)**	(8.4)	**(15.8)**	(16.6)
Foreign exchange gain on long-term debt	**3.4**	0.4	**4.5**	8.3
Gain on derivative financial instruments (Note 6)	**-**	3.1	**3.2**	0.7
Other income (expense), net	**(3.2)**	0.4	**(1.0)**	(9.7)
Net income before income taxes	**123.4**	65.1	**228.7**	117.4
Income tax expense (Note 7)	**(32.5)**	(14.1)	**(60.3)**	(24.1)
Net income	**$ 90.9**	$ 51.0	**$ 168.4**	$ 93.3
Net income attributable to:				
Equity shareholders of the Company	**$ 81.3**	$ 36.0	**$ 147.4**	$ 62.0
Non-controlling interests	**9.6**	15.0	**21.0**	31.3
Net income	**$ 90.9**	$ 51.0	**$ 168.4**	$ 93.3
Net income per common share: (in Canadian dollars)				
Attributable to equity shareholders of the Company				
- Basic and diluted (Note 8)	**$ 0.61**	$ 0.27	**$ 1.11**	$ 0.47

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 June 30, **2017**	3 months ended June 30, 2016	6 months ended June 30, **2017**	6 months ended June 30, 2016
Net income	**$ 90.9**	$ 51.0	**$ 168.4**	$ 93.3
Other comprehensive loss				
Items that will not be recycled through net income:				
Defined benefit plan actuarial losses (Note 5)	**(35.2)**	(45.4)	**(31.9)**	(69.2)
Income tax recovery on defined benefit plan actuarial losses (Note 7)	**9.2**	11.8	**8.3**	18.0
	(26.0)	(33.6)	**(23.6)**	(51.2)
Items that may be recycled through net income:				
Foreign exchange translation of foreign operations, net of tax	**(13.3)**	(0.8)	**(16.5)**	(25.3)
Other comprehensive loss, net of tax	**(39.3)**	(34.4)	**(40.1)**	(76.5)
Total comprehensive income	**$ 51.6**	$ 16.6	**$ 128.3**	$ 16.8
Total comprehensive income (loss) attributable to:				
Equity shareholders of the Company	**$ 45.6**	$ 5.9	**$ 110.9**	$ (8.5)
Non-controlling interests	**6.0**	10.7	**17.4**	25.3
Total comprehensive income	**$ 51.6**	$ 16.6	**$ 128.3**	$ 16.8

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 June 30, **2017**	3 months ended June 30, 2016	6 months ended June 30, **2017**	6 months ended June 30, 2016
Share capital				
Balance at beginning and end of period	**$ 1,047.7**	$ 1,047.7	**$ 1,047.7**	$ 1,047.7
Contributed surplus and other equity				
Balance at beginning of period	**$ 31.9**	$ (74.5)	**$ (4.6)**	$ (74.5)
Forward purchase liability related to acquisition (Note 11(a))	**-**	-	**36.5**	-
Balance at end of period	**$ 31.9**	$ (74.5)	**$ 31.9**	$ (74.5)
Retained earnings				
Balance at beginning of period	**$ 403.0**	$ 266.8	**$ 351.7**	$ 257.7
Net income attributable to equity shareholders of the Company	**81.3**	36.0	**147.4**	62.0
Defined benefit plan actuarial losses, net of tax	**(22.4)**	(29.3)	**(20.0)**	(45.2)
Elimination of non-controlling interests (Note 11(a))	**-**	-	**(16.6)**	-
Acquisition of non-controlling interests (Note 8)	**(1.5)**	(3.5)	**(2.1)**	(4.5)
Balance at end of period	**$ 460.4**	$ 270.0	**$ 460.4**	$ 270.0
Accumulated other comprehensive income				
Balance at beginning of period	**$ 85.7**	$ 75.5	**$ 88.9**	$ 100.0
Foreign exchange translation of foreign operations, net of tax	**(13.3)**	(0.8)	**(16.5)**	(25.3)
Balance at end of period	**$ 72.4**	$ 74.7	**$ 72.4**	$ 74.7
Total equity attributable to equity holders of the Company	**$ 1,612.4**	$ 1,317.9	**$ 1,612.4**	$ 1,317.9
Non-controlling interests				
Balance at beginning of period	**$ 241.7**	$ 303.3	**$ 254.8**	$ 296.8
Net income attributable to non-controlling interests	**9.6**	15.0	**21.0**	31.3
Defined benefit plan actuarial losses attributable to non-controlling interests, net of tax	**(3.6)**	(4.3)	**(3.6)**	(6.0)
Distributions to non-controlling interests	**(2.2)**	(7.3)	**(4.4)**	(11.5)
Acquisition of non-controlling interests (Note 8)	**(6.0)**	(16.0)	**(8.4)**	(19.9)
Elimination of non-controlling interests (Note 11(a))	**-**	-	**(19.9)**	-
Balance at end of period	**$ 239.5**	$ 290.7	**$ 239.5**	$ 290.7
Total equity	**$ 1,851.9**	$ 1,608.6	**$ 1,851.9**	$ 1,608.6

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 June 30, 2017	3 months ended June 30, 2016	6 months ended June 30, 2017	6 months ended June 30, 2016
Cash generated from (used in):				
Operating activities				
Net income	**$ 90.9**	$ 51.0	**$ 168.4**	$ 93.3
Items not affecting cash:				
Amortization	**62.1**	57.5	**124.4**	118.1
Income tax expense	**32.5**	14.1	**60.3**	24.1
Long-term portion of deferred reforestation obligations	**(7.5)**	(7.6)	**8.6**	4.2
Foreign exchange gain on long-term debt	**(3.4)**	(0.4)	**(4.5)**	(8.3)
Changes in mark-to-market value of derivative financial instruments	**-**	(3.6)	**-**	(3.4)
Employee future benefits	**3.3**	3.2	**6.5**	6.4
Finance expense, net	**7.8**	8.4	**15.8**	16.6
Gain on sale of Anthony EACOM Inc. (Note 3)	**-**	-	**(4.0)**	-
Gain on legal settlement, net (Note 12)	**-**	(15.5)	**-**	(15.5)
Equity income	**-**	(1.1)	**(0.6)**	(2.2)
Other, net	**1.5**	(3.3)	**(4.9)**	(2.9)
Defined benefit plan contributions, net	**(6.6)**	(5.2)	**(12.6)**	(10.4)
Income taxes paid, net	**(19.3)**	(3.0)	**(18.1)**	(16.6)
	161.3	94.5	**339.3**	203.4
Net change in non-cash working capital (Note 9)	**89.1**	128.8	**(16.1)**	70.8
	250.4	223.3	**323.2**	274.2
Financing activities				
Change in operating bank loans (Note 4(a))	**(40.0)**	(76.0)	**(28.0)**	(29.0)
Proceeds from long-term debt (Note 4(b))	**-**	-	**1.7**	-
Repayment of long-term debt (Note 4(b))	**(0.1)**	-	**(0.1)**	-
Finance expenses paid	**(3.2)**	(6.9)	**(6.4)**	(11.0)
Acquisition of non-controlling interests (Note 8)	**(7.4)**	(19.4)	**(10.2)**	(24.4)
Cash distributions paid to non-controlling interests	**(2.2)**	(7.3)	**(6.0)**	(11.5)
	(52.9)	(109.6)	**(49.0)**	(75.9)
Investing activities				
Additions to property, plant and equipment, timber, and intangible assets, net	**(61.7)**	(66.2)	**(100.6)**	(113.3)
Proceeds on sale of Anthony EACOM Inc., net (Note 3)	**1.2**	-	**6.6**	-
Proceeds on sale of Lakeland Winton (Note 14)	**15.0**	-	**15.0**	-
Proceeds on disposal of property, plant, and equipment	**1.9**	-	**8.3**	-
Acquisition of Beadles & Balfour (Note 11(a))	**-**	-	**(41.8)**	-
Acquisition of Wynndel (Note 11(b))	**(14.4)**	(19.7)	**(14.4)**	(19.7)
Other, net	**1.2**	(2.7)	**1.1**	(1.1)
	(56.8)	(88.6)	**(125.8)**	(134.1)
Foreign exchange loss on cash and cash equivalents	**(2.0)**	(0.3)	**(2.1)**	(4.2)
Increase in cash and cash equivalents*	**138.7**	24.8	**146.3**	60.0
Cash and cash equivalents at beginning of period*	**164.2**	132.7	**156.6**	97.5
Cash and cash equivalents at end of period*	**$ 302.9**	$ 157.5	**$ 302.9**	$ 157.5

*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 and six months ended June 30, 2017 and 2016
(millions of Canadian dollars unless otherwise noted, unaudited)

1. Basis of Preparation

These condensed consolidated interim financial statements (the "financial statements") have been prepared in accordance with International Accounting Standard ("IAS") 34 *Interim Financial Reporting*, and 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 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 year ended December 31, 2016, available at www.canfor.com or www.sedar.com.

Effective January 1, 2017, the Company has adopted the amendment to IAS 7 *Statement of Cash Flows*, which clarified disclosure requirements associated with cash and non-cash changes in liabilities from financing activities. The adoption of this amendment has had no impact on the Company's disclosures in the financial statements.

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.

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

These financial statements were authorized for issue by the Company's Board of Directors on July 25, 2017.

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 a preliminary assessment of the impact of the new standard, and currently anticipates no significant impact on its financial statements, with the assessment to be finalized in the second half of 2017.

In July 2014, the IASB issued IFRS 9, *Financial Instruments*. The required adoption date for IFRS 9 is January 1, 2018 and the Company does not anticipate the new standard to have a significant impact on its 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 and the Company is in the process of assessing the impact, if any, on the financial statements of this new standard.

2. Inventories

(millions of Canadian dollars, unaudited)	**As at June 30, 2017**	As at December 31, 2016
Logs	**$ 81.0**	$ 107.3
Finished products	**333.1**	310.6
Residual fibre	**20.3**	13.8
Materials and supplies	**120.8**	117.3
	$ 555.2	$ 549.0

The above inventory balances are stated after inventory write-downs from cost to net realizable value. There were no inventory write-downs at June 30, 2017 or December 31, 2016.

3. Long-Term Investments and Other

(millions of Canadian dollars, unaudited)		**As at June 30, 2017**		As at December 31, 2016
Investments	**$**	**14.7**	$	14.7
Equity investment in Anthony EACOM Inc.		**-**		16.8
Other deposits, loans and advances		**19.0**		19.2
	$	**33.7**	$	50.7

On March 31, 2017, the Company sold its 50% investment in Anthony EACOM Inc. to EACOM Timber Corporation for net proceeds of $21.4 million and recorded a gain of $4.0 million in Other Income in the first quarter of 2017. In the first half of 2017, instalments of $6.6 million have been received, with the remaining $14.9 million payable in equal instalments by 2020. Of this balance, $5.4 million is recorded under Accounts Receivable – Other and $9.5 million is recorded as a receivable under Long-Term Investments and Other. Prior to the sale, the Company's interest in Anthony EACOM Inc. was classified as a joint venture and accounted for using the equity method of accounting.

4. Operating Loans and Long-Term Debt

(a) Available Operating Loans

(millions of Canadian dollars, unaudited)		**As at June 30, 2017**		As at December 31, 2016
Canfor (excluding CPPI)				
Available Operating Loans:				
Operating loan facility	**$**	**350.0**	$	350.0
Facility for letters of credit		**50.0**		50.0
Total operating loan facility		**400.0**		400.0
Operating loan drawn		**-**		(28.0)
Letters of credit		**(41.5)**		(41.6)
Total available operating loan facility - Canfor	**$**	**358.5**	$	330.4
CPPI				
Available Operating Loans:				
Operating loan facility	**$**	**110.0**	$	110.0
Letters of credit		**(9.0)**		(9.3)
Total available operating loan facility - CPPI	**$**	**101.0**	$	100.7
Consolidated:				
Total operating loan facilities	**$**	**510.0**	$	510.0
Total available operating loan facilities	**$**	**459.5**	$	431.1

Interest is payable on Canfor's operating loans at floating rates based on the lenders' Canadian prime rate, bankers acceptances, US dollar base rate or US dollar LIBOR rate, plus a margin that varies with the Company's debt to total capitalization ratio.

The terms of CPPI's operating loan facility include interest payable at floating rates that vary depending on the ratio of debt to total capitalization and is based on lenders' Canadian prime rate, bankers acceptances, US dollar base rate or US dollar LIBOR rate, plus a margin.

Both Canfor's and CPPI's operating loan facilities have certain financial covenants, including maximum debt to total capitalization ratios.

Canfor (excluding CPPI) has a separate facility to cover letters of credit. At June 30, 2017, $39.0 million of letters of credit outstanding are covered under this facility with the balance of $2.5 million covered under Canfor's general operating loan facility.

At June 30, 2017, $9.0 million of letters of credit outstanding are covered under the CPPI general operating loan facility. As at June 30, 2017, the Company and CPPI are in compliance with all covenants relating to their operating loans. Substantially all borrowings of CPPI are non-recourse to other entities within the Company.

(b) Long-Term Debt

On January 30, 2017, the Company entered into a new five-year floating interest rate term loan for US$1.3 million. The debt is repayable in monthly instalments with the balance due January 30, 2022. Interest payable is based on LIBOR plus a margin.

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

As at June 30, 2017, the Company and CPPI are in compliance with all covenants relating to their long-term debt.

Fair value of total long-term debt

At June 30, 2017, the fair value of the Company's long-term debt is $444.3 million (December 31, 2016 - $447.2 million). The fair value was determined based on prevailing market rates for long-term debt with similar characteristics and risk profile.

5. Employee Future Benefits

For the three months ended June 30, 2017, defined benefit plan actuarial losses of $35.2 million (before tax) were recognized in other comprehensive income. The losses recorded in the second quarter of 2017 principally reflect a lower discount rate used to value the net defined benefit plan obligations offset in part by the return generated on plan assets. For the six months ended June 30, 2017, losses of $31.9 million (before tax) were recognized in other comprehensive income. For the three and six months ended June 30, 2016, the Company recognized before tax actuarial losses in other comprehensive income of $45.4 million and $69.2 million, respectively.

At June 30, 2017, a one percentage point increase in the discount rate used in calculating the actuarial estimate of future liabilities for the Company's defined benefit pension plans would decrease the accrued defined benefit pension obligation by an estimated $89.8 million, of which 41% (December 31, 2016 – 33%) is fully hedged against changes in discount rates and longevity risk (potential increases in life expectancy of plan members) through buy-in annuities, and a further 24% (December 31, 2016 – 32%) is partially hedged through the plan's investment in debt securities. For the Company's other benefit plans, a one percentage point increase in the discount rate used in calculating the actuarial estimate of future liabilities would decrease the accrued benefit obligation by an estimated $22.9 million.

The discount rate assumptions used to estimate the changes in net retirement benefit obligations were as follows:

	Defined Benefit Pension Plans	**Other Benefit Plans**
June 30, 2017	**3.5 %**	**3.5 %**
March 31, 2017	3.9%	3.9%
December 31, 2016	3.9%	3.9%
June 30, 2016	3.5%	3.5%
March 31, 2016	4.0%	4.0%
December 31, 2015	4.1%	4.1%

In the second quarter of 2017, the Company purchased $90.5 million of buy-in annuities through its defined benefit pension plans, increasing total annuities purchased to $377.1 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. Transaction costs of $4.6 million related to the purchase were recognized in other comprehensive income in the second quarter of 2017, principally reflecting the difference between the annuity rate (which is comparable to solvency rates) compared to the discount rate used to value the obligations on a going concern basis.

6. Financial Instruments

Canfor's cash and cash equivalents, accounts receivable, other deposits, loans and advances, operating loans, accounts payable and accrued liabilities, and long-term debt are measured at amortized cost subsequent to initial recognition.

Derivative instruments are measured at fair value. IFRS 13, *Fair Value Measurement,* requires classification of financial instruments within a hierarchy that prioritizes the inputs to fair value measurement.

The three levels of the fair value hierarchy are:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly;

Level 3 – Inputs that are not based on observable market data.

The following table summarizes Canfor's financial instruments measured at fair value at June 30, 2017 and December 31, 2016, and shows the level within the fair value hierarchy in which the financial instruments have been classified:

(millions of Canadian dollars, unaudited)	Fair Value Hierarchy Level		**As at June 30, 2017**		As at December 31, 2016
Financial assets measured at fair value					
Investments - held for trading	Level 1	**$**	**14.3**	$	14.3
Derivative financial instruments - held for trading	Level 2		**-**		0.2
		$	**14.3**	$	14.5
Financial liabilities measured at fair value					
Derivative financial instruments - held for trading	Level 2	**$**	**-**	$	0.1
		$	**-**	$	0.1

Canfor invests in equity and debt securities, which are traded in an active market and valued using closing prices on the measurement date with gains or losses recognized through comprehensive income.

At times, the Company uses a variety of derivative financial instruments, which are included in Level 2 of the fair value hierarchy, to reduce its exposure to risks associated with fluctuations in foreign exchange rates, lumber prices, energy costs, and floating interest rates on long-term debt.

At June 30, 2017, the Company had no derivative financial instruments outstanding (December 31, 2016 - net asset of $0.1 million). The fair value of these financial instruments was determined based on prevailing market rates for instruments with similar characteristics.

The following table summarizes the gain (loss) on derivative financial instruments for the three and six-month periods ended June 30, 2017 and 2016:

(millions of Canadian dollars, unaudited)	3 months ended June 30,				6 months ended June 30,			
		2017		2016		**2017**		2016
Energy derivatives	**$**	**-**	$	0.9	**$**	**-**	$	(0.6)
Lumber futures		**-**		2.2		**3.2**		1.2
Interest rate swaps		**-**		-		**-**		0.1
Gain on derivative financial instruments	**$**	**-**	$	3.1	**$**	**3.2**	$	0.7

7. Income Taxes

(millions of Canadian dollars, unaudited)	3 months ended June 30,				6 months ended June 30,			
		2017		2016		**2017**		2016
Current	**$**	**(35.5)**	$	(6.1)	**$**	**(60.6)**	$	(20.2)
Deferred		**3.0**		(8.0)		**0.3**		(3.9)
Income tax expense	**$**	**(32.5)**	$	(14.1)	**$**	**(60.3)**	$	(24.1)

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 June 30, **2017**	2016	6 months ended June 30, **2017**	2016
Income tax expense at statutory rate of 26.0%	**$ (32.1)**	$ (16.9)	**$ (59.5)**	$ (30.5)
Add (deduct):				
Entities with different income tax rates and other tax adjustments	**(0.7)**	(1.3)	**(1.9)**	(0.2)
Non-taxable income related to non-controlling interests	**0.1**	3.7	**0.2**	5.0
Permanent difference from capital gains and other non-deductible items	**0.2**	0.4	**0.9**	1.6
Income tax expense	**$ (32.5)**	$ (14.1)	**$ (60.3)**	$ (24.1)

In addition to the amounts recorded to net income, a tax recovery of $9.2 million was recorded to other comprehensive income for the three months ended June 30, 2017 in relation to the actuarial losses on defined benefit plans (three months ended June 30, 2016 - tax recovery of $11.8 million). For the six months ended June 30, 2017, the tax recovery was $8.3 million (six months ended June 30, 2016 - tax recovery of $18.0 million).

Also included in other comprehensive income for the three months ended June 30, 2017 was a tax recovery of $1.0 million related to foreign exchange differences on translation of investments in foreign operations (three months ended June 30, 2016 - tax recovery of $0.1 million). For the six months ended June 30, 2017, the tax recovery was $1.3 million (six months ended June 30, 2016 - tax recovery of $2.3 million).

8. Earnings Per Share and Normal Course Issuer Bid

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

	3 months ended June 30, **2017**	2016	6 months ended June 30, **2017**	2016
Weighted average number of common shares	**132,804,543**	132,804,543	**132,804,543**	132,804,543

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 first half of 2017, Canfor did not purchase any common shares. As at July 25, 2017, there were 132,804,543 common shares of the Company outstanding.

Under a separate normal course issuer bid, CPPI purchased 607,900 common shares in the second quarter of 2017 for $7.5 million (an average of $12.34 per common share) from non-controlling shareholders, of which $7.4 million was paid in the period, with the balance paid in early July. In the first half of 2017, CPPI purchased 872,103 common shares for $10.5 million (an average of $12.04 per common share). As at June 30, 2017, Canfor's ownership interest in CPPI was 54.4%.

Subsequent to quarter end, CPPI purchased 165,925 common shares for $2.1 million (an average of $12.66 per common share), increasing Canfor's ownership interest in CPPI to 54.5% as at July 25, 2017.

9. Net Change in Non-Cash Working Capital

(millions of Canadian dollars, unaudited)	3 months ended June 30, **2017**	2016	6 months ended June 30, **2017**	2016
Accounts receivable	**$ 29.0**	$ 14.0	**$ (34.1)**	$ (3.3)
Inventories	**100.7**	111.4	**(9.2)**	50.6
Prepaid expenses	**(9.9)**	(12.6)	**(16.6)**	(17.6)
Accounts payable, accrued liabilities and current portion of deferred reforestation obligations	**(30.7)**	16.0	**43.8**	41.1
Net decrease (increase) in non-cash working capital	**$ 89.1**	$ 128.8	**$ (16.1)**	$ 70.8

10. 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 June 30, 2017					
Sales to external customers	**$ 904.3**	**$ 280.9**	**$ -**	**$ -**	**$ 1,185.2**
Sales to other segments	**41.9**	**-**	**-**	**(41.9)**	**-**
Operating income (loss)	**110.4**	**31.5**	**(10.9)**	**-**	**131.0**
Amortization	**43.6**	**18.5**	**-**	**-**	**62.1**
Capital expenditures[1]	**41.3**	**19.2**	**1.2**	**-**	**61.7**
3 months ended June 30, 2016					
Sales to external customers	$ 765.3	$ 257.0	$ -	$ -	$ 1,022.3
Sales to other segments	36.8	0.2	-	(37.0)	-
Operating income (loss)	71.5	5.2	(7.1)	-	69.6
Amortization	39.4	16.9	1.2	-	57.5
Capital expenditures[1]	45.7	18.6	1.9	-	66.2
6 months ended June 30, 2017					
Sales to external customers	**$ 1,721.4**	**$ 590.0**	**$ -**	**$ -**	**$ 2,311.4**
Sales to other segments	**82.8**	**0.1**	**-**	**(82.9)**	**-**
Operating income (loss)	**194.1**	**66.7**	**(23.0)**	**-**	**237.8**
Amortization	**87.1**	**37.3**	**-**	**-**	**124.4**
Capital expenditures[1]	**60.6**	**36.0**	**4.0**	**-**	**100.6**
Identifiable assets	**2,246.5**	**793.2**	**358.2**	**-**	**3,397.9**
6 months ended June 30, 2016					
Sales to external customers	$ 1,537.9	$ 552.3	$ -	$ -	$ 2,090.2
Sales to other segments	81.0	0.2	-	(81.2)	-
Operating income (loss)	104.9	44.3	(14.5)	-	134.7
Amortization	80.2	35.6	2.3	-	118.1
Capital expenditures[1]	78.9	31.7	2.7	-	113.3
Identifiable assets	2,312.8	803.0	227.9	-	3,343.7

[1]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 (Note 11(b)).

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.

(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, with a final instalment of $3.6 million scheduled to be paid on October 15, 2017.

12. Houston Pellet Limited Partnership Settlement

On June 28, 2016, Houston Pellet Limited Partnership ("HPLP") settled various legal claims with a logistics terminal located in Northern British Columbia related to unloading, storage, handling and shipping services for wood pellets manufactured by HPLP, for $16.3 million. Certain machinery and equipment involved in the settlement were impaired resulting in approximately $0.8 million in impairment charges recorded by HPLP. The net gain of $15.5 million was recorded in Manufacturing and Product Costs in the second quarter of 2016. Canfor owns a 60% interest in HPLP.

13. 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 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 for a period of four months, in accordance with US law. On June 23, 2017, the DOC announced its preliminary anti-dumping duty determination 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. Accordingly, countervailing and anti-dumping duty deposits of $34.8 million have been expensed as of June 30, 2017 reflecting the duties paid on deposits for sales recognized in the quarter.

The final countervailing and anti-dumping duty determinations will be aligned for DOC administrative purposes. This alignment could result in the suspension of preliminary countervailing duty cash deposit requirements after the initial four month period has expired on August 26, 2017 and until an aligned final determination decision is established, currently anticipated to occur in the fourth quarter of 2017.

Canfor and other Canadian forest product companies, the Federal Government and Canadian Provincial Governments categorically deny the US allegations and vehemently disagree with the preliminary countervailing and anti-dumping determinations made by the DOC.

14. Sale of Lakeland Mills Ltd. and Winton Global Lumber Ltd.

Included in other accounts receivable at December 31, 2016 was $15.0 million related to the final instalment for the July 1, 2015 sale of the Company's 33.3% investment in Lakeland Mills Ltd. and Winton Global Lumber Ltd. ("Lakeland Winton") for consideration of $30.0 million. The balance was received June 30, 2017.