CANFOR CORPORATION

2017

QUARTER ONE

INTERIM REPORT

FOR THE THREE MONTHS ENDED MAR 31, 2017

To our Shareholders

Canfor Corporation reported net income attributable to shareholders ("shareholder net income") of $66.1 million, or $0.50 per share, for the first quarter of 2017, compared to shareholder net income of $38.0 million, or $0.29 per share, for the fourth quarter of 2016 and a net income attributable to shareholders of $26.0 million, or $0.20 per share, for the first quarter of 2016.

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

(millions of Canadian dollars, except per share amounts)	**Q1 2017**	Q4 2016	Q1 2016
Sales	**$ 1,126.2**	$ 1,043.5	$ 1,067.9
Operating income before amortization[1]	**$ 169.1**	$ 135.6	$ 125.7
Operating income[1]	**$ 106.8**	$ 72.0	$ 65.1
Net income attributable to equity shareholders of the Company	**$ 66.1**	$ 38.0	$ 26.0
Net income per share attributable to equity shareholders of the Company, basic and diluted	**$ 0.50**	$ 0.29	$ 0.20
Adjusted shareholder net income	**$ 59.3**	$ 37.7	$ 20.9
Adjusted shareholder net income per share, basic and diluted	**$ 0.45**	$ 0.29	$ 0.16

[1] Adjusted for a recovery of $2.0 million related to lower estimated Canal Flats closure costs recorded in the fourth quarter of 2016.

The Company's adjusted shareholder net income for the first quarter of 2017 was $59.3 million, or $0.45 per share, compared to an adjusted shareholder net income of $37.7 million, or $0.29 per share, for the fourth quarter of 2016, and adjusted shareholder net income of $20.9 million, or $0.16 per share for the first quarter of 2016.

The Company reported operating income of $106.8 million for the first quarter of 2017, up $34.8 million from adjusted operating income of $72.0 million for the fourth quarter of 2016. Higher earnings in the first quarter of 2017 reflected improved operating income in both the lumber and pulp and paper segments. Lumber segment results primarily reflected higher Western Spruce/Pine/Fir ("SPF") and Southern Yellow Pine ("SYP") sales realizations, offset in part by higher market-based stumpage and increased log costs resulting from extreme weather conditions in Western Canada towards the end of 2016 and into early 2017. Pulp and paper segment results were mostly attributable to higher pulp shipment volumes during the current quarter.

North American lumber demand was solid in the first quarter of 2017, with US housing starts in line with the previous quarter, averaging 1,253,000 units on a seasonally adjusted basis. Canadian housing construction activity was strong in the first quarter of 2017, up 13% compared to the previous quarter, at an average of 225,000 units on a seasonally adjusted basis. Offshore lumber demand from China, Japan and other regions also improved through the first quarter, particularly for the Company's higher-value lumber products.

Western SPF lumber unit sales realizations increased compared to the previous quarter reflecting higher average Western SPF lumber prices, offset in part by a 1% stronger Canadian dollar. The average benchmark North American Random Lengths Western SPF 2x4 #2&Btr price was up US$33 per Mfbm, or 10%, compared to the fourth quarter of 2016, with more pronounced price increases in the Western SPF 2x6 #2&Btr price, and more modest price increases across wider-width dimensions. The improving benchmark prices were supported by strong underlying North American and offshore demand, in addition to uncertainty surrounding possible countervailing duties being imposed on Canadian lumber shipments destined to the US. SYP unit sales realizations also showed a modest improvement compared to the prior quarter as improved benchmark SYP lumber prices were supported by seasonally stronger demand and concerns around the effects of potential duties on Western SPF supply.

Total lumber production, at 1.3 billion board feet, was up 5% compared to the prior quarter, largely reflecting improved productivity and additional operating days in the current quarter. Total lumber shipments were in line with the previous quarter, as a tightening supply of railcars and trucks in North America, largely due to challenging weather conditions, placed constraints on shipments from Western Canada. Lumber unit manufacturing costs in the first quarter of 2017 were in line with the previous quarter as gains in productivity were offset by higher market-based stumpage and increased log costs resulting from the challenging weather conditions.

Northern Bleached Softwood Kraft ("NBSK") pulp average list prices to China, as published by RISI, moved up by US$50 per tonne as a result of successive price increases implemented through the first quarter, however, the Company's overall NBSK pulp unit sales realizations were relatively unchanged from the previous quarter, reflecting shipments of a higher proportion of orders taken in late 2016 and early in 2017, as well as further pressure on customer discounts and a stronger Canadian dollar. Higher Bleached Chemi-Thermo Mechanical Pulp ("BCTMP") unit sales realizations in the first quarter of 2017 reflected a continued improvement in BCTMP demand and prices in the current quarter. Energy revenues were up in the current quarter reflecting slightly higher energy prices combined with seasonally higher power generation.

Pulp shipment and production volumes were up 22% and 4%, respectively, from the previous quarter, with the increase in the former primarily reflecting increased shipments to China and North America, combined with the impact of the delayed vessel to Asia over the year end, and, to a lesser extent, improved productivity. Pulp unit manufacturing costs saw a modest decrease in the current quarter, largely reflecting improved productivity, offset in part by seasonally higher energy consumption.

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, and an industry average of 19.88%, to be posted by cash deposits or bonds on the exports of softwood lumber to the US on or after approximately May 1, 2017 for a period of 120 days, in accordance with US law.

The DOC is expected to announce its preliminary anti-dumping duty determination on June 23, 2017. 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 and until an aligned final determination decision is established. Canfor continues to cooperate with the Provincial and Federal Governments of Canada who have indicated they will vigorously defend the interests of the industry.

Looking ahead, the US housing market is forecast to continue its gradual recovery through the balance of 2017. North American lumber consumption is forecast 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 second and third quarter of 2017 reflecting stronger seasonal demand. Absent a new Softwood Lumber Agreement, there remains a risk of material anti-dumping duties being imposed on Canadian lumber shipments destined to the US in addition to the preliminary countervailing duty rate. The Company anticipates marketplace volatility as investigations progress and determinations are made.

For the Company's key offshore lumber markets, demand is anticipated to show a solid improvement through the second quarter of 2017. In the pulp and paper segment, global softwood markets are projected to remain relatively strong during the second quarter. Reduced capacity over the traditional spring maintenance period may support further price increases in the second quarter of 2017. With the commissioning of new pulp capacity in the latter part of 2017 and into 2018, there is risk of downward pressure on pricing in the second half of this year. For the month of April 2017, CPPI announced an increase of US$20 per tonne for NBSK pulp list price to China and North America.

Results in the second quarter of 2017 will reflect the positive impact of recent price gains, particularly in Asia, and scheduled maintenance outages at CPPI's Northwood and Taylor pulp mills, with a projected 33,000 tonnes of reduced NBSK pulp and 4,000 tonnes of reduced BCTMP production, respectively, as well as higher associated maintenance costs and lower projected shipment volumes. For the third quarter of 2017, CPPI's Intercontinental pulp mill has a maintenance outage scheduled, with a projected 8,000 tonnes of reduced NBSK pulp production.

Michael J. Korenberg	**Don B. Kayne**
Chairman	**President and Chief Executive Officer**

Canfor Corporation
First 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 March 31, 2017 relative to the quarters ended December 31, 2016 and March 31, 2016, and the financial position of the Company at March 31, 2017. It should be read in conjunction with Canfor's unaudited interim consolidated financial statements and accompanying notes for the quarters ended March 31, 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 (Loss) (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 Net Income" and Adjusted Shareholder Net Income (Loss) per Share (calculated as Adjusted Shareholder Net Income (Loss) divided by the weighted average number of shares outstanding during the period). Operating Income before Amortization and Adjusted Shareholder Net Income (Loss) and Adjusted Shareholder Net Income (Loss) 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 (Loss) and Adjusted Shareholder Net Income (Loss) 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 (Loss) 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 first 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 April 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.

FIRST QUARTER 2017 OVERVIEW

Selected Financial Information and Statistics

(millions of Canadian dollars, except per share amounts)	Q1 2017	Q4 2016	Q1 2016
Operating income (loss) by segment:			
Lumber	**$ 83.7**	$ 57.4	$ 33.4
Pulp and Paper	**$ 35.2**	$ 22.9	$ 39.1
Unallocated and Other[1]	**$ (12.1)**	$ (6.3)	$ (7.4)
Total operating income	**$ 106.8**	$ 74.0	$ 65.1
Add: Amortization[2]	**$ 62.3**	$ 63.6	$ 60.6
Total operating income before amortization	**$ 169.1**	$ 137.6	$ 125.7
Add (deduct):			
Working capital movements	**$ (105.2)**	$ 28.1	$ (58.0)
Defined benefit plan contributions, net	**$ (6.0)**	$ (7.7)	$ (5.2)
Income taxes received (paid), net	**$ 1.2**	$ 0.2	$ (13.6)
Gain on sale of Anthony EACOM Inc.[3]	**$ (4.0)**	$ -	$ -
Other operating cash flows, net[4]	**$ 17.7**	$ 2.8	$ 2.0
Cash from operating activities	**$ 72.8**	$ 161.0	$ 50.9
Add (deduct):			
Proceeds received from sale of Anthony EACOM Inc. [3]	**$ 5.4**	$ -	$ -
Proceeds from long-term debt	**$ 1.7**	$ -	$ -
Finance expenses paid	**$ (3.2)**	$ (7.5)	$ (4.1)
Distributions paid to non-controlling interests	**$ (3.8)**	$ (5.4)	$ (4.2)
Capital additions, net	**$ (38.9)**	$ (63.4)	$ (47.1)
Acquisition of Beadles Lumber Company and Balfour Lumber Company	**$ (41.8)**	$ -	$ -
Advances to Licella Fibre Fuel Pty Ltd.	**$ -**	$ (3.5)	$ -
Foreign exchange gain (loss) on cash and cash equivalents	**$ (0.1)**	$ 1.8	$ (3.9)
Other, net	**$ 3.5**	$ (0.2)	$ (3.4)
Change in cash / operating loans	**$ (4.4)**	$ (82.8)	$ (11.8)
ROIC – Consolidated period-to-date[5]	**4.0%**	2.6%	1.3%
Average exchange rate (US$ per C$1.00)[6]	**$ 0.756**	$ 0.750	$ 0.728

[1] Increase in Unallocated and Other in the first quarter of 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] Further information on operating cash flows can be found in the Company's unaudited interim consolidated financial statements.
[5] 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.
[6] Source – Bank of Canada (average noon 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)	Q1 2017	Q4 2016	Q1 2016
Shareholder net income, as reported	**$ 66.1**	$ 38.0	$ 26.0
Foreign exchange (gain) loss on long-term debt	**$ (1.0)**	$ 2.7	$ (6.9)
(Gain) loss on derivative financial instruments	**$ (2.4)**	$ (1.5)	$ 1.8
Gain on sale of Anthony EACOM Inc.	**$ (3.4)**	$ -	$ -
Mill closure provision recovery	**$ -**	$ (1.5)	$ -
Net impact of above items	**$ (6.8)**	$ (0.3)	$ (5.1)
Adjusted shareholder net income	**$ 59.3**	$ 37.7	$ 20.9
Shareholder net income per share (EPS), as reported	**$ 0.50**	$ 0.29	$ 0.20
Net impact of above items per share	**$ (0.05)**	$ -	$ (0.04)
Adjusted shareholder net income per share	**$ 0.45**	$ 0.29	$ 0.16

The Company reported operating income of $106.8 million for the first quarter of 2017, up $34.8 million from adjusted operating income of $72.0 million for the fourth quarter of 2016. Higher earnings in the first quarter of 2017 reflected improved operating income in both the lumber and pulp and paper segments. Lumber segment results primarily reflected higher Western Spruce/Pine/Fir ("SPF") and Southern Yellow Pine ("SYP") unit sales realizations, offset in part by higher market-based stumpage and increased log costs resulting from extreme weather conditions in Western Canada towards the end of 2016 and into early 2017. Pulp and paper segment results were mostly attributable to higher pulp shipment volumes during the current quarter.

The current quarter's operating income was up $41.7 million from operating income of $65.1 million reported for the first quarter of 2016, reflecting a $50.3 million increase in lumber segment earnings partly offset by a $3.9 million decrease 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, offset in part by a 3 cent, or 4%, strong Canadian dollar, market driven increases in log costs and the effects of the aforementioned challenging weather conditions in Western Canada in the current period. Pulp and paper segment results reflected increased pulp and paper unit manufacturing costs, for the most part again reflecting the difficult weather conditions, which more than offset increased pulp shipment volumes and higher energy revenue. Average NBSK pulp unit sales realizations were broadly in line with the same quarter of 2016, reflecting the impact of the stronger Canadian dollar, the timing of shipments (versus orders), and increased customer discounts, all of which offset higher US-dollar list prices to China.

OPERATING RESULTS BY BUSINESS SEGMENT

Lumber

Selected Financial Information and Statistics – Lumber

(millions of Canadian dollars, unless otherwise noted)	Q1 2017	Q4 2016	Q1 2016
Sales	**$ 817.1**	$ 785.7	$ 772.6
Operating income before amortization[7]	**$ 127.2**	$ 99.0	$ 74.2
Operating income[7]	**$ 83.7**	$ 55.4	$ 33.4
Average SPF 2x4 #2&Btr lumber price in US$[8]	**$ 348**	$ 315	$ 272
Average SPF price in Cdn$[8]	**$ 460**	$ 420	$ 374
Average SYP East 2x4 #2 lumber price in US$[9]	**$ 482**	$ 445	$ 407
US housing starts (thousand units SAAR)[10]	**1,253**	1,248	1,151
Production – SPF lumber (MMfbm)[11]	**936.4**	912.2	966.5
Production – SYP lumber (MMfbm)[11]	**361.8**	323.9	336.0
Shipments – SPF lumber (MMfbm)[12]	**925.0**	939.7	1,006.3
Shipments – SYP lumber (MMfbm)[12]	**345.9**	332.1	348.9

[7] Q4 2016 results adjusted for a recovery of $2.0 million related to lower estimated Canal Flats closure costs originally recorded in the third quarter of 2015.
[8] Western Spruce/Pine/Fir, per thousand board feet (Source – Random Lengths Publications, Inc.).
[9] Southern Yellow Pine, Eastside, per thousand board feet (Source – Random Lengths Publications, Inc.).
[10] Source – US Census Bureau, seasonally adjusted annual rate ("SAAR").
[11] Excluding production of trim blocks.
[12] Canfor-produced lumber, including lumber purchased for remanufacture, excluding trim blocks and wholesale shipments.

Overview

Operating income for the lumber segment was $83.7 million for the first quarter of 2017, an increase of $28.3 million compared to adjusted operating income of $55.4 million in the previous quarter, and up $50.3 million compared to an operating income of $33.4 million in the same quarter of 2016.

Compared to the fourth quarter of 2016, the increase in operating income principally reflected higher Western SPF and SYP unit sales realizations, offset in part by higher market-based stumpage and higher log and transportation costs mostly stemming from the challenging winter weather conditions in Western Canada. Compared to the first quarter of 2016, the increase in operating income in the current quarter reflected higher lumber unit sales realizations as a result of significantly higher US-dollar benchmark lumber prices, offset in part by market driven increases on log costs and weather-related factors in Western Canada in the current quarter.

Markets

During the first quarter of 2017, increased consumption and solid demand across all sectors contributed to improved Western SPF and SYP lumber prices. Total US housing starts averaged 1,253,000 units SAAR, in line with the previous quarter while lumber demand in Canada was strong, with Canadian housing starts up 13% compared to the previous quarter, averaging 225,000 units on a seasonally adjusted basis. In addition to strong underlying demand, uncertainty surrounding possible countervailing duties being imposed on Canadian lumber shipments destined to the US further bolstered benchmark lumber pricing during the quarter. Offshore lumber demand continued to improve through the first quarter, with steady shipment volumes to China and Japan.

Sales

Sales for the lumber segment for the first quarter of 2017 were $817.1 million, compared to $785.7 million in the previous quarter and $772.6 million for the first quarter of 2016. The 4% increase in sales revenue compared to the prior quarter largely reflected higher average Western SPF and SYP unit sales realizations. Relative to the first quarter of 2016, the 6% increase in sales revenue principally reflected higher Western SPF and SYP lumber unit sales realizations.

Total lumber shipments in the first quarter of 2017, at 1.3 billion board feet, were in line with the previous quarter, and down modestly compared to the first quarter of 2016, reflecting in part a tightening supply of railcars and trucks in North America as a result of the challenging weather conditions.

Western SPF lumber unit sales realizations showed a moderate improvement compared to the previous quarter reflecting higher average Western SPF lumber prices, offset in part by a 1% stronger Canadian dollar. The average benchmark North American Random Lengths Western SPF 2x4 #2&Btr price was up US$33 per Mfbm, or 10%, compared to the fourth quarter of 2016, with more pronounced price increases in the Western SPF 2x6 #2&Btr price, and more modest price increases across wider-width dimensions. SYP unit sales realizations showed a modest improvement compared to the prior quarter with the SYP East 2x4 #2 price up US$37 per Mfbm, or 8%, to US$482 per Mfbm, with similar increases seen for wide-width SYP products. The SYP East 2x6 #2 price was in line with the prior quarter. SYP lumber prices were supported by improving demand and, in part, higher Western SPF lumber prices.

Compared to the first quarter of 2016, lumber unit sales realizations increased significantly as higher US-dollar Western SPF and SYP benchmark lumber prices significantly outweighed the impact of the 4% stronger Canadian dollar. The average North American Random Lengths Western SPF 2x4 #2&Btr price was up US$76 per Mfbm, or 28%, while the SYP East 2x4 #2 price was up US$75 per Mfbm, or 18%.

Total residual fibre revenue in the current quarter was slightly higher than the prior quarter as increased chip sales volumes were offset by seasonal pricing adjustments and, in part, market-driven decreases in sawmill residual chip prices, largely in the US South. Residual fibre revenue decreased compared to the first quarter of 2016, reflecting a decline in chip prices primarily due to the adverse weather in the current quarter. Pellet sales revenues were slightly lower than the previous quarter reflecting timing of shipments, and moderately higher compared to the first quarter of 2016 reflecting the ramp-up of the Fort St. John and Chetwynd pellet plants in the first half of 2016.

Operations

Total lumber production, at 1.3 billion board feet, was up 5% compared to the prior quarter reflecting improved productivity as well as additional operating days as a result of fewer statutory holidays in the current quarter. Total lumber production was in line with the first quarter of 2016.

Unit manufacturing costs in the first 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 were offset by higher market-based stumpage, and higher hauling and purchased wood costs, as the Company responded to the challenges presented by the challenging winter weather conditions. Compared to the first quarter of 2016, unit manufacturing costs were moderately higher, reflecting higher market-driven increases in purchase wood costs and stumpage, and increased haul costs.

Pulp and Paper

Selected Financial Information and Statistics – Pulp and Paper[13]

(millions of Canadian dollars, unless otherwise noted)	Q1 2017	Q4 2016	Q1 2016
Sales	**$ 309.1**	$ 257.8	$ 295.3
Operating income before amortization[14]	**$ 54.0**	$ 42.1	$ 57.8
Operating income	**$ 35.2**	$ 22.9	$ 39.1
Average NBSK pulp price delivered to China – US$[15]	**$ 645**	$ 595	$ 590
Average NBSK pulp price delivered to China – Cdn$[15]	**$ 853**	$ 794	$ 810
Production – pulp (000 mt)	**317.1**	304.0	321.8
Production – paper (000 mt)	**34.6**	36.0	35.3
Shipments – pulp (000 mt)	**337.1**	275.4	319.1
Shipments – paper (000 mt)	**33.7**	33.6	34.9

[13] 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.
[14] Amortization includes amortization of certain capitalized major maintenance costs.
[15] Per tonne, NBSK pulp list price delivered to China (Resource Information Systems, Inc.).

Overview

Operating income for the pulp and paper segment was $35.2 million for the first quarter, up $12.3 million from the fourth quarter of 2016 and down $3.9 million from the same quarter in 2016.

The improvement in pulp and paper segment operating income from the fourth quarter of 2016 primarily reflected a significant increase in pulp shipments driven by the strengthening China and North American markets combined with the impact of the vessel slippage from December 2016 into January 2017. Also contributing to improved results in the first quarter of 2017, were improvements in NBSK pulp productivity, higher energy revenues combined with moderately lower fibre costs. In addition, certain Scientific Research and Experimental Development ("SR&ED") tax credits were recognized in the current quarter. As highlighted above, average NBSK pulp unit sales realizations remained broadly in line with the previous quarter.

Compared to the first quarter of 2016, the decrease in pulp and paper segment results reflected a 4% stronger Canadian dollar, an increase in customer discounts and the impact of the timing of shipments (versus orders) on average NBSK pulp sales realizations in the current quarter, partially offset by moderately higher shipments, primarily to China. Energy revenues were up quarter-over-quarter and pulp production was broadly in line with the first quarter of 2016. Pulp unit manufacturing costs were moderately higher when compared to the first quarter of 2016, primarily due to increases in energy costs, as a result of the aforementioned extreme weather conditions early in the quarter, which more than offset the benefits of lower fibre costs.

Markets

Global softwood pulp markets strengthened through the first quarter of 2017 reflecting higher demand, primarily from China, North America and other Asian countries. Pulp softwood inventories as at the end of February 2017 were in the balanced range at 30 days of supply, a decrease of 2 days from December 2016[16], and in line with inventory levels from March 2016. Market conditions are generally considered balanced when inventories are in the 27-30 days of supply range. Global kraft paper markets were relatively strong through the first quarter of 2017. Global shipments of bleached softwood pulp increased by 7.3% for the first two months of 2017 when compared to the first two months of 2016, driven primarily by increased shipments to China and other Asian countries[17].

[16] 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").

[17] As reported by PPPC statistics.

Sales

Total pulp shipments in the first quarter of 2017 were 337,100 tonnes, up 61,700 tonnes, or 22%, from the previous quarter and up 18,000 tonnes, or 6%, from the first quarter of 2016. When compared to the previous quarter, higher NBSK pulp shipments reflected increased shipments to China and North America, combined with the impact of the slippage of a 14,000 tonne vessel shipment to Asia from December 2016 into January 2017. Compared to the first quarter of 2016, the moderate increase in NBSK pulp shipments was mostly attributable to the vessel slippage into the current quarter.

The average China US-dollar NBSK pulp list price of US$645 per tonne, as published by RISI, was up US$50 per tonne, or 8%, from the fourth quarter of 2016, as a result of successive price increases throughout the quarter. Average NBSK pulp unit sales realizations were broadly in line with the previous quarter, reflecting the impact of a higher proportion of shipments in the period relating to orders taken late in 2016 and early 2017, which included 14,000 tonnes related to the aforementioned vessel slippage into January. This was combined with further pressure on customer discounts and a 1 cent or 1% stronger Canadian dollar. BCTMP markets continued to improve in the first quarter of 2017 when compared to the fourth quarter of 2016, positively impacting average BCTMP unit sales realizations.

Compared to the first quarter of 2016, the average China US-dollar NBSK pulp list price was up US$55 per tonne, or 9%. As highlighted above, average NBSK pulp unit sales realizations were broadly in line with the first quarter of 2016, reflecting a 3 cent or 4% strengthening of the Canadian dollar combined with the impact of the timing of shipments (versus orders) and increases in customer discounts, all of which offset the higher market prices to China. BCTMP unit sales realizations significantly increased when compared to the first quarter of 2016 reflecting the growth in BCTMP market demands when compared to the same period of 2016.

Energy revenues were up in the first quarter of 2017 when compared to the previous quarter, reflecting slightly higher energy prices combined with higher power generation. Compared to the first quarter of 2016, energy revenues were also up, principally due to increased power generation in the current quarter.

Paper unit sales realizations in the first quarter of 2017 were down slightly from the previous quarter reflecting a higher value regional mix, which was more than offset by the 1% stronger Canadian dollar. Compared to the same quarter of 2016, paper unit sales realizations were moderately lower, as the change in the sales mix was more than offset by the 4% stronger Canadian dollar.

Operations

Pulp production in the first quarter of 2017 at 317,100 tonnes was up 13,100 tonnes, or 4%, from the fourth quarter of 2016 and broadly in line with the first quarter of 2016. The modest increase in pulp production when compared to the previous quarter, was principally as a result of improved operating rates for NBSK pulp. BCTMP production made up approximately 18% of total pulp production in the first quarter of 2017, which was consistent with the fourth quarter of 2016.

Pulp unit manufacturing costs saw a modest decrease when compared to the previous quarter, largely reflecting improved productivity and lower fibre costs which were offset in part by higher energy costs, driven by increased consumption during the current quarter. Fibre costs were moderately lower compared to the previous quarter, reflecting seasonal pricing adjustments combined with lower delivered freight costs and lower whole log chip costs, despite the increase in the proportion of whole log chips purchased in the current quarter.

Pulp unit manufacturing costs saw a moderate increase when compared with the first quarter of 2016 as lower fibre costs were more than offset by substantially higher energy costs, driven by market-related energy price increases combined with weather-related increased consumption levels during the current quarter, as well as, higher chemical prices and usage (the latter largely weather related), and increased maintenance spend when compared to the first quarter of 2016. Fibre costs were moderately down compared to the first quarter of 2016, reflecting a decline in chip prices resulting from the adverse weather early in the current quarter. Paper production for the first quarter of 2017 at 34,600 tonnes was relatively consistent with both comparative periods.

Paper unit manufacturing costs saw modest increases when compared to the fourth quarter of 2016, primarily driven by the timing of spend on maintenance and higher operating expenses in the current quarter. Compared to the first quarter of 2016, paper unit manufacturing costs were slightly higher, principally reflecting the timing of spend on maintenance in the current quarter.

Unallocated and Other Items

Selected Financial Information

(millions of Canadian dollars)		Q1 2017		Q4 2016		Q1 2016
Operating loss of Panels operations[18]	**$**	**(0.7)**	$	(0.6)	$	(0.7)
Corporate costs	**$**	**(11.4)**	$	(5.7)	$	(6.7)
Finance expense, net	**$**	**(8.0)**	$	(8.0)	$	(8.2)
Foreign exchange gain (loss) on long-term debt	**$**	**1.1**	$	(3.1)	$	7.9
Gain (loss) on derivative financial instruments	**$**	**3.2**	$	2.1	$	(2.4)
Other income (expense), net	**$**	**2.2**	$	(4.1)	$	(10.1)

[18] 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 $11.4 million for the first quarter of 2017, $5.7 million higher than the previous quarter and $4.7 million higher than the first quarter of 2016 largely as a result of increased legal costs related to the expiry of the Softwood Lumber Agreement.

Net finance expense at $8.0 million for the first quarter of 2017 was in line with the previous quarter and down slightly from the first quarter of 2016. In the first 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 (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. In the first quarter of 2017, the Company recorded a net gain of $3.2 million related to its derivatives instruments, reflecting realized gains on lumber future contracts settled during the quarter.

Other income, net of $2.2 million in 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 expense of $4.1 million in the fourth quarter of 2016 principally reflected favourable foreign exchange movements on US-dollar denominated cash, receivables and payables, which were more than offset by the write-down of research and development related advances to Licella. Other expense, net for the first quarter of 2016 principally reflected unfavourable 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)		Q1 2017		Q4 2016		Q1 2016
Foreign exchange translation differences for foreign operations, net of tax	**$**	**(3.2)**	$	10.4	$	(24.5)
Defined benefit actuarial gains (losses), net of tax	**$**	**2.4**	$	15.0	$	(17.6)
Change in fair value of available-for-sale financial assets, net of tax	**$**	**-**	$	(0.2)	$	-
Other comprehensive income (loss), net of tax	**$**	**(0.8)**	$	25.2	$	(42.1)

In the first quarter of 2017, the Company recorded an after-tax gain of $2.4 million in relation to changes in the valuation of the Company's employee future benefit plans, largely reflecting the return generated on plan assets and, in part, membership experience gains. This compared to an after-tax gain of $15.0 million in the previous quarter and an after-tax loss of $17.6 million in the first quarter of 2016, largely reflecting changes in the discount rate used to value the employee future benefit plans. During the fourth quarter of 2016, the Company purchased $216.1 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 $19.5 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. A further $90.5 million of annuities were purchased April 13, 2017, taking total annuities purchased by the Company to $377.1 million representing approximately 47% of defined benefit pension plan liabilities.

In addition, the Company recorded a loss of $3.2 million in the first quarter of 2017 related to foreign exchange differences for foreign operations, resulting from the strengthening of the Canadian dollar relative to the US dollar in the quarter. This compared to a gain of $10.4 million in the previous quarter and a loss of $24.5 million in the first 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)	Q1 2017	Q4 2016	Q1 2016
Increase in cash and cash equivalents[19]	**$ 7.7**	$ 13.0	$ 39.1
Operating activities	**$ 72.8**	$ 161.0	$ 50.9
Financing activities	**$ 3.9**	$ (80.9)	$ 33.7
Investing activities	**$ (69.0)**	$ (67.1)	$ (45.5)
Ratio of current assets to current liabilities	**2.1 : 1**	2.0 : 1	1.5 : 1
Net debt to capitalization	**15.2%**	15.5%	24.0%

[19] 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 $72.8 million in the first quarter of 2017, compared to $161.0 million in the previous quarter and $50.9 million in the first quarter of 2016. The decrease in operating cash flows from the previous quarter primarily reflected higher non-cash working capital balances due to the seasonal log inventory build in Western Canada, mitigated in part by increased cash earnings in the current quarter. Compared to the first 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, largely a result of increased lumber inventories due in part to the aforementioned transportation constraints in the current quarter.

Cash generated in financing activities was $3.9 million in the current quarter, compared to cash used of $80.9 million in the previous quarter and cash generated of $33.7 million in the same quarter of 2016. During the current quarter, the Company made cash distributions of $3.8 million to non-controlling shareholders, down $1.6 million from the previous quarter and down $0.4 million from the same quarter in 2016. Financing activities in the first quarter of 2017 also included proceeds of $1.7 million related to the issuance of a term debt financing (see "Liquidity and Financial Requirements" section for more details). In the first quarter of 2017, CPPI purchased 264,203 common shares under its Normal Course Issuer Bid for $2.8 million, 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 $40.0 million outstanding on its Canadian operating loan facility at the end of the first quarter of 2017, an increase of $12.0 million from the prior quarter and down $165.0 million from the end of the first quarter of 2016.

Cash used for investing activities was $69.0 million in the current quarter, compared to $67.1 million in the previous quarter and $45.5 million in the same quarter of 2016. Capital additions were $38.9 million, down $24.5 million from the previous quarter and down $8.2 million from the first 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 for 2017 planned for the US South. In the pulp and paper segment, capital expenditures primarily related to capital expenditures associated with various energy, maintenance of business and capital improvement projects. On January 2, 2017, the Company completed the final phase of the acquisition of Beadles Lumber Company and Balfour Lumber Company ("Beadles & Balfour") for cash consideration of $41.8 million. This increased the Company's ownership interest in Beadles & Balfour from 55% to 100%. On March 31, 2017 the Company sold its 50% interest in Anthony EACOM Inc., for net proceeds of $21.4 million, of which $5.4 million was received in the first quarter, with the balance payable in equal installments over a three year period.

Liquidity and Financial Requirements

At March 31, 2017, the Company on a consolidated basis had cash of $164.2 million, $40.0 million drawn on its operating loans, and an additional $50.5 million reserved for several standby letters of credit. During the quarter, the Company drew an additional $12.0 million of its operating loan, and at period end had total available undrawn operating loans of $419.5 million.

Excluding CPPI, the Company's bank operating loans at March 31, 2017 totaled $350.0 million, of which $40.0 million was 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 March 31, 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 first quarter of 2017 was 15.2%. For Canfor, excluding CPPI, net debt to capitalization at the end of the first quarter of 2017 was 18.2%.

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 quarter of 2017, Canfor did not purchase any common shares. As at April 25, 2017, there were 132,804,543 common shares of the Company outstanding. Under a separate normal course issuer bid, CPPI purchased 264,203 common shares in the first quarter of 2017 for $3.0 million (an average of $11.35 per common share), of which $2.8 million was paid in the period, with the balance paid in early April. 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 53.9%, up 0.3% from the end of the prior quarter.

Final Phase of Acquisition of Beadles & Balfour

On January 2, 2017, Canfor completed the final phase of the acquisition of Beadles & Balfour for $41.8 million bringing Canfor's interest 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 $16.6 million was charged to retained earnings, principally reflecting Canfor's election to calculate 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.

Licella Pulp Joint Venture

In March 2017, the Canadian Federal Government, through its Sustainable Development Technology Canada program, announced 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.

Commitments and Subsequent Events

On April 15, 2016, the Company completed the acquisition of the assets of Wynndel Box and Lumber Ltd. for $31.6 million, excluding working capital. At the acquisition date, the Company paid $19.7 million, and a working capital true-up payment of $2.6 million was paid in July 2016. On April 5, 2017, a further $14.4 million was paid, with the final payment of $3.6 million scheduled to be paid on October 15, 2017.

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, and an industry average of 19.88%, to be posted by cash deposits or bonds on the exports of softwood lumber to the US on or after approximately May 1, 2017 for a period of 120 days, in accordance with US law.

The DOC is expected to announce its preliminary anti-dumping duty determination on June 23, 2017. 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 and until an aligned final determination decision is established. Canfor continues to cooperate with the Provincial and Federal Governments of Canada who have indicated they will vigorously defend the interests of the industry.

OUTLOOK

Lumber

Looking ahead, the US housing market is forecast to continue its gradual recovery through the balance of 2017. North American lumber consumption is forecast 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 second and third quarter of 2017 reflecting stronger seasonal demand. Absent a new Softwood Lumber Agreement, there remains a risk of material anti-dumping duties being imposed on Canadian lumber shipments destined to the US in addition to the preliminary countervailing duty rate. The Company anticipates marketplace volatility as investigations progress and determinations are made.

For the Company's key offshore lumber markets, demand is anticipated to show a modest improvement through the second quarter of 2017.

Pulp and Paper

Global softwood markets are projected to remain relatively strong during the second quarter. Reduced capacity over the traditional spring maintenance period may support further price increases in the second quarter of 2017. With the commissioning of new pulp capacity in the latter part of 2017 and into 2018, there is risk of downward pressure on pricing in the second half of this year. For the month of April 2017, CPPI announced an increase of US$20 per tonne for NBSK pulp list price to China and North America.

Results in the second quarter of 2017 will reflect the positive impact of recent price gains, particularly in Asia, and by scheduled maintenance outages at CPPI's Northwood and Taylor pulp mills, with a projected 33,000 tonnes of reduced NBSK pulp and 4,000 tonnes of reduced BCTMP production, respectively, as well as higher associated maintenance costs and lower projected shipment volumes. For the third quarter of 2017, CPPI's Intercontinental pulp mill has a maintenance outage scheduled, with a projected 8,000 tonnes of reduced NBSK pulp production.

OUTSTANDING SHARES

At April 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 March 31, 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.

See the "Commitments and Subsequent Events" for discussion regarding the expiry of the Softwood Lumber Agreement.

SELECTED QUARTERLY FINANCIAL INFORMATION

	Q1 2017	Q4 2016	Q3 2016	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q2 2015
Sales and income (millions of Canadian dollars)								
Sales	**$ 1,126.2**	$ 1,043.5	$ 1,101.2	$ 1,022.3	$ 1,067.9	$ 1,053.0	$ 989.9	$ 952.4
Operating income	**$ 106.8**	$ 74.0	$ 97.4	$ 69.6	$ 65.1	$ 31.8	$ 8.5	$ 17.6
Net income	**$ 77.5**	$ 44.2	$ 66.4	$ 51.0	$ 42.3	$ 19.6	$ 1.4	$ 23.9
Shareholder net income (loss)	**$ 66.1**	$ 38.0	$ 50.9	$ 36.0	$ 26.0	$ 1.6	$ (17.3)	$ 11.1
Per common share (Canadian dollars)								
Shareholder net income (loss) – basic and diluted	**$ 0.50**	$ 0.29	$ 0.38	$ 0.27	$ 0.20	$ 0.01	$ (0.13)	$ 0.08
Book value[20]	**$ 11.81**	$ 11.17	$ 10.70	$ 9.92	$ 9.91	$ 10.02	$ 10.00	$ 9.86
Common Share Repurchases								
Share volume repurchased (000 shares)	**-**	-	-	**-**	-	1,050	-	410
Shares repurchased (millions of Canadian dollars)	**$ -**	$ -	$ -	$ **-**	$ -	$ 20.0	$ -	$ 9.9
Statistics								
Lumber shipments (MMfbm) [21]	**1,271**	1,272	1,340	1,344	1,355	1,347	1,337	1,362
Pulp shipments (000 mt)	**337**	275	320	287	319	356	307	292
Average exchange rate – US$/Cdn$	**$ 0.756**	$ 0.750	$ 0.766	$ 0.776	$ 0.728	$ 0.749	$ 0.764	$ 0.813
Average Western SPF 2x4 #2&Btr lumber price (US$)	**$ 348**	$ 315	$ 322	$ 311	$ 272	$ 263	$ 269	$ 270
Average SYP (East) 2x4 #2 lumber price (US$)	**$ 482**	$ 445	$ 414	$ 437	$ 407	$ 400	$ 331	$ 383
Average NBSK pulp list price delivered to China (US$)	**$ 645**	$ 595	$ 595	$ 617	$ 590	$ 600	$ 638	$ 675

[20] 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.

[21] 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)	Q1 2017	Q4 2016	Q3 2016	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q2 2015
Shareholder net income (loss), as reported	**$ 66.1**	$ 38.0	$ 50.9	$ 36.0	$ 26.0	$ 1.6	$ (17.3)	$ 11.1
Foreign exchange (gain) loss on long-term debt	**$ (1.0)**	$ 2.7	$ 0.9	$ (0.3)	$ (6.9)	$ 5.1	$ -	$ -
(Gain) loss on derivative financial instruments	**$ (2.4)**	$ (1.5)	$ (0.1)	$ (2.3)	$ 1.8	$ (1.2)	$ 9.3	$ (7.7)
Gain on sale of Anthony EACOM Inc.[22]	**$ (3.4)**	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Mill closure provisions[23]	**$ -**	$ (1.5)	$ -	$ -	$ -	$ -	$ 14.4	$ -
Gain on legal settlement, net[24]	**$ -**	$ -	$ -	$ (6.9)	$ -	$ -	$ -	$ -
Costs associated with pension plan legislation changes	**$ -**	$ -	$ -	$ -	$ -	$ 2.4	$ -	$ -
Gain on investment in Lakeland Mills Ltd. and Winton Global Lumber Ltd.[25]	**$ -**	$ -	$ -	$ -	$ -	$ -	$ -	$ (6.1)
Mark-to-market loss on Taylor pulp mill contingent consideration, net[26]	**$ -**	$ -	$ -	$ -	$ -	$ -	$ -	$ 0.7
Net impact of above items	**$ (6.8)**	$ (0.3)	$ 0.8	$ (9.5)	$ (5.1)	$ 6.3	$ 23.7	$ (13.1)
Adjusted shareholder net income (loss)	**$ 59.3**	$ 37.7	$ 51.7	$ 26.5	$ 20.9	$ 7.9	$ 6.4	$ (2.0)
Shareholder net income (loss) per share (EPS), as reported	**$ 0.50**	$ 0.29	$ 0.38	$ 0.27	$ 0.20	$ 0.01	$ (0.13)	$ 0.08
Net impact of above items per share[27]	**$ (0.05)**	$ -	$ 0.01	$ (0.07)	$ (0.04)	$ 0.05	$ 0.18	$ (0.10)
Adjusted net income (loss) per share[27]	**$ 0.45**	$ 0.29	$ 0.39	$ 0.20	$ 0.16	$ 0.06	$ 0.05	$ (0.02)

[22] 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).

[23] 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.

[24] 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.

[25] On July 1, 2015, Canfor sold its 33.3% interest in Lakeland Mills Ltd. and Winton Global Lumber Ltd. for $30.0 million and recognized a $7.0 million gain (before-tax).

[26] As part of the sale of the BCTMP Taylor pulp mill to CPPI on January 30, 2015, Canfor could receive contingent consideration based on the Taylor pulp mill's future earnings over a three year period. On the acquisition date, the contingent consideration was valued at $1.8 million (before-tax) and Canfor recorded an asset and CPPI recorded an offsetting liability for this amount. During the second quarter of 2015, the contingent consideration asset and liability were revalued to nil. The adjustment above reflects the impact to Canfor EPS net of non-controlling interest.

[27] 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 rounding.

Canfor Corporation
Condensed Consolidated Balance Sheets

(millions of Canadian dollars, unaudited)		**As at March 31, 2017**		As at December 31, 2016
ASSETS				
Current assets				
Cash and cash equivalents	**$**	**164.2**	$	156.6
Accounts receivable - Trade		**226.7**		164.2
- Other		**67.1**		66.5
Inventories (Note 2)		**658.0**		549.0
Prepaid expenses and other		**59.7**		50.6
Total current assets		**1,175.7**		986.9
Property, plant and equipment		**1,427.5**		1,460.8
Timber licenses		**528.8**		532.7
Goodwill and other intangible assets		**237.5**		238.8
Long-term investments and other (Note 3)		**39.7**		50.7
Retirement benefit surplus (Note 5)		**8.2**		5.9
Deferred income taxes, net		**2.9**		1.3
Total assets	**$**	**3,420.3**	$	3,277.1
LIABILITIES				
Current liabilities				
Operating loans (Note 4(a))	**$**	**40.0**	$	28.0
Accounts payable and accrued liabilities		**469.0**		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		**557.8**		502.3
Long-term debt (Note 4(b))		**447.2**		448.0
Retirement benefit obligations (Note 5)		**301.1**		302.2
Deferred reforestation obligations		**73.2**		56.9
Other long-term liabilities		**20.8**		23.7
Deferred income taxes, net		**210.2**		205.5
Total liabilities	**$**	**1,610.3**	$	1,538.6
EQUITY				
Share capital	**$**	**1,047.7**	$	1,047.7
Contributed surplus and other equity		**31.9**		(4.6)
Retained earnings		**403.0**		351.7
Accumulated other comprehensive income		**85.7**		88.9
Total equity attributable to equity shareholders of the Company		**1,568.3**		1,483.7
Non-controlling interests		**241.7**		254.8
Total equity	**$**	**1,810.0**	$	1,738.5
Total liabilities and equity	**$**	**3,420.3**	$	3,277.1

Subsequent Events (Note 5, Note 11(b), Note 12)

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 March 31, **2017**	2016
Sales	**$ 1,126.2**	$ 1,067.9
Costs and expenses		
Manufacturing and product costs	**766.8**	750.0
Freight and other distribution costs	**161.0**	167.9
Amortization	**62.3**	60.6
Selling and administration costs	**28.3**	24.4
Restructuring, mill closure and severance costs	**1.6**	1.0
	$ 1,020.0	$ 1,003.9
Equity income (Note 3)	**0.6**	1.1
Operating income	**106.8**	65.1
Finance expense, net	**(8.0)**	(8.2)
Foreign exchange gain on long-term debt	**1.1**	7.9
Gain (loss) on derivative financial instruments (Note 6)	**3.2**	(2.4)
Other income (expense), net	**2.2**	(10.1)
Net income before income taxes	**105.3**	52.3
Income tax expense (Note 7)	**(27.8)**	(10.0)
Net income	**$ 77.5**	$ 42.3
Net income attributable to:		
Equity shareholders of the Company	**$ 66.1**	$ 26.0
Non-controlling interests	**11.4**	16.3
Net income	**$ 77.5**	$ 42.3
Net income per common share: (in Canadian dollars)		
Attributable to equity shareholders of the Company		
- Basic and diluted (Note 8)	**$ 0.50**	$ 0.20

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 March 31, **2017**	2016
Net income	**$ 77.5**	$ 42.3
Other comprehensive income (loss)		
Items that will not be recycled through net income:		
Defined benefit plan actuarial gain (loss) (Note 5)	**3.3**	(23.8)
Income tax recovery (expense) on defined benefit plan actuarial gains (losses) (Note 7)	**(0.9)**	6.2
	2.4	(17.6)
Items that may be recycled through net income:		
Foreign exchange translation of foreign operations, net of tax	**(3.2)**	(24.5)
Other comprehensive loss, net of tax	**(0.8)**	(42.1)
Total comprehensive income	**$ 76.7**	$ 0.2
Total comprehensive income (loss) attributable to:		
Equity shareholders of the Company	**$ 65.3**	$ (14.4)
Non-controlling interests	**11.4**	14.6
Total comprehensive income	**$ 76.7**	$ 0.2

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 March 31, **2017**		2016
Share capital				
Balance at beginning and end of period	**$**	**1,047.7**	$	1,047.7
Contributed surplus and other equity				
Balance at beginning of period	**$**	**(4.6)**	$	(74.5)
Forward purchase liability related to acquisition of Beadles & Balfour (Note 11(a))		**36.5**		-
Balance at end of period	**$**	**31.9**	$	(74.5)
Retained earnings				
Balance at beginning of period	**$**	**351.7**	$	257.7
Net income attributable to equity shareholders of the Company		**66.1**		26.0
Defined benefit plan actuarial gains (losses), net of tax		**2.4**		(15.9)
Elimination of non-controlling interests (Note 11(a))		**(16.6)**		-
Acquisition of non-controlling interests (Note 8)		**(0.6)**		(1.0)
Balance at end of period	**$**	**403.0**	$	266.8
Accumulated other comprehensive income				
Balance at beginning of period	**$**	**88.9**	$	100.0
Foreign exchange translation of foreign operations, net of tax		**(3.2)**		(24.5)
Balance at end of period	**$**	**85.7**	$	75.5
Total equity attributable to equity shareholders of the Company	**$**	**1,568.3**	$	1,315.5
Non-controlling interests				
Balance at beginning of period	**$**	**254.8**	$	296.8
Net income attributable to non-controlling interests		**11.4**		16.3
Defined benefit plan actuarial gains (losses) attributable to non-controlling interests, net of tax		**-**		(1.7)
Distributions to non-controlling interests		**(2.2)**		(4.2)
Acquisition of non-controlling interests (Note 8)		**(2.4)**		(3.9)
Elimination of non-controlling interests (Note 11(a))		**(19.9)**		-
Balance at end of period	**$**	**241.7**	$	303.3
Total equity	**$**	**1,810.0**	$	1,618.8

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 March 31, **2017**	2016
Cash generated from (used in):		
Operating activities		
Net income	**$ 77.5**	$ 42.3
Items not affecting cash:		
Amortization	**62.3**	60.6
Income tax expense	**27.8**	10.0
Long-term portion of deferred reforestation obligations	**16.1**	11.8
Foreign exchange gain on long-term debt	**(1.1)**	(7.9)
Changes in mark-to-market value of derivative financial instruments	**-**	0.2
Employee future benefits	**3.2**	3.2
Finance expense, net	**8.0**	8.2
Gain on sale of Anthony EACOM Inc. (Note 3)	**(4.0)**	-
Equity income	**(0.6)**	(1.1)
Other, net	**(6.4)**	0.4
Defined benefit plan contributions, net	**(6.0)**	(5.2)
Income taxes received (paid), net	**1.2**	(13.6)
	178.0	108.9
Net change in non-cash working capital (Note 9)	**(105.2)**	(58.0)
	72.8	50.9
Financing activities		
Change in operating bank loans (Note 4(a))	**12.0**	47.0
Proceeds from long-term debt	**1.7**	-
Finance expenses paid	**(3.2)**	(4.1)
Acquisition of non-controlling interests (Note 8)	**(2.8)**	(5.0)
Cash distributions paid to non-controlling interests	**(3.8)**	(4.2)
	3.9	33.7
Investing activities		
Additions to property, plant and equipment, timber and intangible assets, net	**(38.9)**	(47.1)
Proceeds on sale of Anthony EACOM Inc., net (Note 3)	**5.4**	-
Proceeds on disposal of property, plant and equipment	**6.4**	-
Acquisition of Beadles & Balfour (Note 11(a))	**(41.8)**	-
Other, net	**(0.1)**	1.6
	(69.0)	(45.5)
Foreign exchange loss on cash and cash equivalents	**(0.1)**	(3.9)
Increase in cash and cash equivalents*	**7.6**	35.2
Cash and cash equivalents at beginning of period*	**156.6**	97.5
Cash and cash equivalents at end of period*	**$ 164.2**	$ 132.7

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

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

Canfor Corporation
Notes to the Condensed Consolidated Financial Statements

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

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 April 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 March 31, 2017**		As at December 31, 2016
Logs	**$**	**197.4**	$	107.3
Finished products		**327.2**		310.6
Residual fibre		**14.0**		13.8
Materials and supplies		**119.4**		117.3
	$	**658.0**	$	549.0

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

3. Long-Term Investments and Other

(millions of Canadian dollars, unaudited)		As at March 31, 2017		As at December 31, 2016
Investments	**$**	**14.9**	$	14.7
Equity investment in Anthony EACOM Inc.		**-**		16.8
Other deposits, loans and advances		**24.8**		19.2
	$	**39.7**	$	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. The first instalment of $5.4 million was received on March 31, 2017, with the remaining $16.1 million payable in equal instalments over a three year period. As part of the agreement, EACOM Timber Corporation issued a three-year secured note payable to Canfor in the amount of $16.1 million, of which $5.4 million is recorded under Accounts Receivable – Other and $10.7 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. For the three months ended March 31, 2017, the Company's share of the joint venture's sales was $6.2 million and net income was $0.6 million.

4. Operating Loans and Long-Term Debt

(a) Available Operating Loans

(millions of Canadian dollars, unaudited)		As at March 31, 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		**(40.0)**		(28.0)
Letters of credit		**(41.5)**		(41.6)
Total available operating loan facility - Canfor	**$**	**318.5**	$	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	**$**	**419.5**	$	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 March 31, 2017, $38.9 million of letters of credit outstanding are covered under this facility with the balance of $2.6 million covered under Canfor's general operating loan facility.

At March 31, 2017, $9.0 million of letters of credit outstanding are covered under the CPPI general operating loan facility. As at March 31, 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 March 31, 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 March 31, 2017, the fair value of the Company's long-term debt is $449.7 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 March 31, 2017, defined benefit pension plan actuarial gains of $3.3 million (before tax) were recognized in other comprehensive income. The gains recorded in the first quarter of 2017 principally reflect the return generated on plan assets and membership experience gains. For the three months ended March 31, 2016, the Company recognized before tax actuarial losses in other comprehensive income of $23.8 million, principally reflecting a lower return on plan assets and a lower discount rate used to value the net defined benefit obligations.

For the Company's defined benefit pension plans, a one percentage point increase in the discount rate used in calculating the actuarial estimate of future liabilities and related plan assets would decrease the accrued benefit obligation by an estimated $112.7 million, and decrease defined benefit pension plan annuity assets by an estimated $23.5 million, before taking into account the impact of hedging.

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

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

Subsequent to quarter end, on April 13, 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.

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 measurement.

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 March 31, 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 March 31, 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		**0.1**		0.2
		$	**14.3**	$	14.5
Financial liabilities measured at fair value					
Derivative financial instruments - held for trading	Level 2	**$**	**-**	$	0.1
		$	**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.

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 March 31, 2017, the fair value of derivative financial instruments is a net asset of $0.1 million (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 month period ended March 31, 2017 and 2016:

	3 months ended March 31,			
(millions of Canadian dollars, unaudited)		**2017**		2016
Lumber futures	**$**	**3.2**	$	(1.0)
Interest rate swaps		**-**		0.1
Energy derivatives		**-**		(1.5)
Gain (loss) on derivative financial instruments	**$**	**3.2**	$	(2.4)

7. Income Taxes

(millions of Canadian dollars, unaudited)	3 months ended March 31, **2017**	2016
Current	**$ (25.1)**	$ (14.1)
Deferred	**(2.7)**	4.1
Income tax expense	**$ (27.8)**	$ (10.0)

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 March 31, **2017**	2016
Income tax expense at statutory rate – 26.0%	**$ (27.4)**	$ (13.6)
Add (deduct):		
Non-taxable income related to non-controlling interests	**0.1**	1.3
Entities with different income tax rates and other tax adjustments	**(1.2)**	1.1
Permanent difference from capital gains and losses and other non-deductible items	**0.7**	1.2
Income tax expense	**$ (27.8)**	$ (10.0)

In addition to the amounts recorded to net income, a tax expense of $0.9 million was recorded in other comprehensive income for the three months ended March 31, 2017 in relation to the actuarial gains on the defined benefit plans (three months ended March 31, 2016 - recovery of $6.2 million on actuarial losses).

Also included in other comprehensive income for the three months ended March 31, 2017 was a tax recovery of $0.3 million related to foreign exchange differences on translation of investments in foreign operations (three months ended March 31, 2016 – recovery of $2.2 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 equity shareholders by the weighted average number of common shares outstanding during the period.

	3 months ended March 31, **2017**	2016
Weighted average number of common shares	**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 quarter of 2017, Canfor did not purchase any common shares. As at April 25, 2017 there were 132,804,543 common shares of the Company outstanding.

Under a separate normal course issuer bid, CPPI purchased 264,203 common shares for $3.0 million (an average of $11.35 per common share) from non-controlling shareholders, of which $2.8 million was paid in the period, with the balance paid in early April. At April 25, 2017, Canfor's ownership interest in CPPI was 53.9%.

9. Net Change in Non-Cash Working Capital

(millions of Canadian dollars, unaudited)	3 months ended March 31, **2017**	2016
Accounts receivable	**$ (63.1)**	$ (17.3)
Inventories	**(109.9)**	(60.8)
Prepaid expenses	**(6.7)**	(5.0)
Accounts payable, accrued liabilities and current portion of deferred reforestation obligations	**74.5**	25.1
Net increase in non-cash working capital	**$ (105.2)**	$ (58.0)

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 March, 2017					
Sales to external customers	**$ 817.1**	**$ 309.1**	**$ -**	**$ -**	**$ 1,126.2**
Sales to other segments	**40.9**	**0.1**	**-**	**(41.0)**	**-**
Operating income (loss)	**83.7**	**35.2**	**(12.1)**	**-**	**106.8**
Amortization	**43.5**	**18.8**	**-**	**-**	**62.3**
Capital expenditures[1]	**19.3**	**16.8**	**2.8**	**-**	**38.9**
Identifiable assets	**2,374.5**	**788.3**	**257.5**	**-**	**3,420.3**
3 months ended March 31, 2016					
Sales to external customers	$ 772.6	$ 295.3	$ -	$ -	$ 1,067.9
Sales to other segments	44.2	-	-	(44.2)	-
Operating income (loss)	33.4	39.1	(7.4)	-	65.1
Amortization	40.8	18.7	1.1	-	60.6
Capital expenditures[1]	33.2	13.1	0.8	-	47.1
Identifiable assets	2,322.5	820.3	215.2	-	3,358.0

[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.

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. Subsequent to quarter end, 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. Subsequent Event

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, and an industry average of 19.88%, to be posted by cash deposits or bonds on the exports of softwood lumber to the US on or after approximately May 1, 2017 for a period of 120 days, in accordance with US law.

The DOC is expected to announce its preliminary anti-dumping duty determination on June 23, 2017. 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 and until an aligned final determination decision is established. Canfor continues to cooperate with the Provincial and Federal Governments of Canada who have indicated they will vigorously defend the interests of the industry.