

2016

CANFOR CORPORATION QUARTER THREE INTERIM REPORT

FOR THE THREE MONTHS ENDED SEPT 30, 2016

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To Our Shareholders

Canfor Corporation reported net income attributable to shareholders (“shareholder net income”) of \$50.9 million, or \$0.38 per share, for the third quarter of 2016, compared to shareholder net income of \$36.0 million, or \$0.27 per share, for the second quarter of 2016 and a net loss attributable to shareholders of \$17.3 million, or \$0.13 per share, for the third quarter of 2015. For the nine months ended September 30, 2016, the Company’s shareholder net income was \$112.9 million, or \$0.85 per share, compared to \$23.1 million, or \$0.17 per share, for the nine months ended September 30, 2015.

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

(millions of Canadian dollars, except per share amounts)	Q3		Q2		YTD		Q3		YTD
	2016		2016		2016		2015		2015
Sales	\$ 1,101.2	\$	1,022.3	\$	3,191.4	\$	989.9	\$	2,872.3
Operating income before amortization ¹	\$ 158.0	\$	111.6	\$	395.3	\$	86.7	\$	289.5
Operating income ¹	\$ 97.4	\$	54.1	\$	216.6	\$	34.1	\$	135.4
Net income (loss) attributable to equity shareholders of the Company	\$ 50.9	\$	36.0	\$	112.9	\$	(17.3)	\$	23.1
Net income (loss) per share attributable to equity shareholders of the Company, basic and diluted	\$ 0.38	\$	0.27	\$	0.85	\$	(0.13)	\$	0.17
Adjusted shareholder net income	\$ 51.7	\$	26.5	\$	99.1	\$	6.4	\$	50.9
Adjusted shareholder net income per share, basic and diluted	\$ 0.39	\$	0.20	\$	0.75	\$	0.05	\$	0.38

¹ Adjusted for a one-time gain of \$15.5 million related to a legal settlement in the second quarter of 2016, one-time costs of \$19.4 million related to the announced closure of the Company’s Canal Flats sawmill in the third quarter of 2015 and \$6.2 million Western SPF inventory valuation adjustments in the third quarter of 2015.

The Company’s adjusted shareholder net income for the third quarter of 2016 was \$51.7 million, or \$0.39 per share, compared to an adjusted shareholder net income of \$26.5 million, or \$0.20 per share, for the second quarter of 2016, and an adjusted shareholder net income of \$6.4 million, or \$0.05 per share for the third quarter of 2015. For the nine months ended September 30, 2016, the Company’s adjusted shareholder net income was \$99.1 million, or \$0.75 per share, compared to \$50.9 million, or \$0.38 per share, for the nine months ended September 30, 2015.

The Company reported operating income of \$97.4 million for the third quarter of 2016, up \$43.3 million from adjusted operating income of \$54.1 million for the second quarter of 2016. Adjusted operating income in the second quarter of 2016 excluded a one-time pre-tax gain of \$15.5 million related to the settlement of a legal claim with respect to logistics services for the Company’s pellet business. Higher earnings in the third quarter of 2016 reflected improved lumber segment results driven largely by higher Western Spruce/Pine/Fir (“SPF”) and Southern Yellow Pine (“SYP”) unit sales realizations and solid productivity gains in the US South, offset in part by higher market based stumpage and increased log hauling costs in Western Canada. Pulp and paper segment results primarily reflected significantly less scheduled maintenance downtime at the Company’s Northern Bleached Softwood Kraft (“NBSK”) pulp mills in the current quarter. Also contributing to the third quarter results were higher pulp shipment volumes, increased energy revenues as well as an improvement in pulp and paper unit sales realizations.

North American lumber demand was steady in the third quarter of 2016, with US housing starts broadly in line with the previous quarter, averaging 1,138,000 units on a seasonally adjusted basis. Canadian housing starts were in line with the previous quarter, at an average of 199,000 units on a seasonally adjusted basis. Offshore lumber demand was consistent with the previous quarter.

Lumber unit sales realizations showed a moderate improvement compared to the previous quarter largely reflecting higher average Western SPF lumber prices and a 1% weaker Canadian dollar, as well as a modest increase in average SYP lumber prices. The average benchmark North American Random Lengths Western SPF 2x4 #2&Btr price was up US\$11 per Mfbm, or 4%, compared to the second quarter of 2016, with more pronounced price increases seen across most other dimensions. While the SYP East 2x4 #2 price declined US\$23 per Mfbm, or 5%, compared to the prior quarter, with larger price decreases in 2x10 and 2x12 dimensions, this effect was more than offset by improved pricing for premium SYP products, which represent a significant portion of the Company’s product mix in the US South, and price increases in 2x6 and 2x8 dimensions.

Total lumber shipments and production were in line with the second quarter of 2016 with increased planer production at the Houston sawmill, following a kiln fire in the previous quarter, and improved productivity in the US

South, offsetting planned capital related downtime at the Company's Polar sawmill in British Columbia and Fulton sawmill in Alabama in the current quarter. Unit manufacturing costs in the third quarter of 2016 were slightly higher than the previous quarter as the per unit impact of gains in productivity were more than offset by moderate market based stumpage increases and higher diesel costs due in part to longer hauling distances in Western Canada.

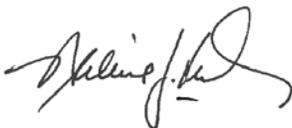
Global softwood pulp markets were relatively stable through the third quarter of 2016 with the average North American US-dollar NBSK pulp list price, as published by RISI, up US\$18 per tonne, or 2%, to US\$998 per tonne, while the average list price to China was down US\$22 per tonne, or 4%, to US\$595 per tonne. NBSK pulp unit sales realizations were up slightly compared to the second quarter of 2016 as the benefit of the weaker Canadian dollar more than offset modestly lower NBSK pulp prices in China during the quarter. Bleached Chemi-Thermo Mechanical Pulp ("BCTMP") markets improved in the third quarter of 2016, positively impacting BCTMP unit sales realizations at the Company's Taylor pulp mill. Energy revenues were well up in the current quarter reflecting a return to more normalized power generation levels as well as higher energy prices.

Pulp shipment and production volumes were up 11% and 12%, respectively, from the previous quarter primarily reflecting the quarter-over-quarter impact of scheduled maintenance downtime. In the current quarter, the Company completed scheduled maintenance outages at the Prince George pulp mill and at the Taylor BCTMP mill which reduced pulp production by approximately 3,700 tonnes and 3,100 tonnes, respectively, while in the second quarter of 2016 scheduled maintenance outages and, to a lesser extent, isolated operational disruptions, reduced NBSK pulp production by approximately 40,000 tonnes. NBSK unit manufacturing costs were substantially lower in the current quarter principally as a result of lower maintenance costs.

On July 29, 2016, Canfor completed the final phase of the acquisition of Scotch & Gulf Lumber located in Alabama, for US\$47.3 million, increasing the Company's ownership interest from 50% to 100%.

Discussions between the Canadian and US Governments regarding the Softwood Lumber Agreement continue following the expiry of the one-year stand-still period on October 12, 2016. In the event no agreement is reached, there is a material risk of US trade action being initiated against Canadian lumber producers which could result in the imposition of duties on lumber shipments to the US.

Looking ahead, the US housing market is forecast to continue its gradual recovery through the balance of 2016. 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. There remains a risk of market place volatility absent a new Softwood Lumber Agreement. For the Company's key offshore lumber markets, demand is anticipated to show a modest improvement through the fourth quarter. In the pulp and paper segment, with new pulp capacity forecast to come on line, there is risk of downward pressure on pricing. For the month of October 2016, Canfor Pulp's announced NBSK pulp list price is US\$1,000 per tonne in North America.



Michael J. Korenberg
Chairman



Don B. Kayne
President and Chief Executive Officer

Canfor Corporation
Third Quarter 2016
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 September 30, 2016 relative to the quarters ended June 30, 2016 and September 30, 2015, and the financial position of the Company at September 30, 2016. It should be read in conjunction with Canfor's unaudited interim consolidated financial statements and accompanying notes for the quarters ended September 30, 2016 and 2015, as well as the 2015 annual MD&A and the 2015 audited consolidated financial statements and notes thereto, which are included in Canfor's Annual Report for the year ended December 31, 2015 (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 (Loss)") 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 (Loss) before Amortization to Operating Income (Loss) 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 third quarter of 2016.

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 October 26, 2016.

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.

THIRD QUARTER 2016 OVERVIEW

Selected Financial Information and Statistics

(millions of Canadian dollars, except per share amounts)	Q3 2016	Q2 2016	YTD 2016	Q3 2015	YTD 2015
Operating income (loss) by segment:					
Lumber	\$ 75.1	\$ 71.5	\$ 180.0	\$ (26.9)	\$ 26.5
Pulp and Paper	\$ 31.0	\$ 5.2	\$ 75.3	\$ 42.3	\$ 106.2
Unallocated and Other	\$ (8.7)	\$ (7.1)	\$ (23.2)	\$ (6.9)	\$ (22.9)
Total operating income	\$ 97.4	\$ 69.6	\$ 232.1	\$ 8.5	\$ 109.8
Add: Amortization ¹	\$ 60.6	\$ 57.5	\$ 178.7	\$ 52.6	\$ 154.1
Total operating income before amortization	\$ 158.0	\$ 127.1	\$ 410.8	\$ 61.1	\$ 263.9
Add (deduct):					
Working capital movements	\$ 2.1	\$ 128.8	\$ 72.9	\$ 7.1	\$ (7.8)
Defined benefit plan contributions, net	\$ (15.2)	\$ (5.2)	\$ (25.6)	\$ 2.7	\$ 0.2
Income taxes paid, net	\$ (13.5)	\$ (3.0)	\$ (30.1)	\$ (25.1)	\$ (59.2)
Cash received from legal settlement ²	\$ 16.3	\$ -	\$ 16.3	\$ -	\$ -
Gain on legal settlement, net ²	\$ -	\$ (15.5)	\$ (15.5)	\$ -	\$ -
Other operating cash flows, net ³	\$ 0.9	\$ (8.9)	\$ (6.0)	\$ 14.1	\$ 22.7
Cash from operating activities	\$ 148.6	\$ 223.3	\$ 422.8	\$ 59.9	\$ 219.8
Add (deduct):					
Finance expenses paid	\$ (3.5)	\$ (6.9)	\$ (14.5)	\$ (3.8)	\$ (9.4)
Distributions paid to non-controlling interests	\$ (11.6)	\$ (7.3)	\$ (23.1)	\$ (43.1)	\$ (52.8)
Capital additions, net	\$ (57.1)	\$ (66.2)	\$ (170.4)	\$ (61.1)	\$ (156.3)
Acquisitions	\$ (64.2)	\$ (19.7)	\$ (83.9)	\$ -	\$ (139.5)
Investment in Ignite Energy Resources	\$ -	\$ (3.5)	\$ (3.5)	\$ -	\$ -
Timber investment loan	\$ -	\$ -	\$ -	\$ (30.0)	\$ (30.0)
Proceeds received from sale of Lakeland Winton	\$ -	\$ -	\$ -	\$ 15.0	\$ 15.0
Repayment of long-term debt, net	\$ -	\$ -	\$ -	\$ (50.0)	\$ (50.0)
Share purchases	\$ -	\$ -	\$ -	\$ -	\$ (39.2)
Change in restricted cash ⁴	\$ -	\$ -	\$ -	\$ -	\$ 50.2
Foreign exchange gain (loss) on cash and cash equivalents	\$ 0.7	\$ (0.3)	\$ (3.5)	\$ 2.1	\$ 10.0
Other, net	\$ 4.4	\$ (18.6)	\$ (17.6)	\$ (5.2)	\$ (22.4)
Change in cash / operating loans	\$ 17.3	\$ 100.8	\$ 106.3	\$ (116.2)	\$ (204.6)
ROIC – Consolidated period-to-date ⁵	3.3%	2.2%	6.9%	(0.9%)	1.9%
Average exchange rate (US\$ per C\$1.00)⁶	\$ 0.766	\$ 0.776	\$ 0.756	\$ 0.764	\$ 0.794

¹ Amortization includes amortization of certain capitalized major maintenance costs.

² Gain relates to a \$16.3 million settlement of a legal claim with respect to logistics services, net of a \$0.8 million impairment of related machinery and equipment.

³ Further information on operating cash flows can be found in the Company's unaudited interim consolidated financial statements.

⁴ Change in restricted cash relates to amounts transferred into an escrow bank account for the first phase of the Beadles & Balfour acquisition which closed on January 2, 2015.

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 (loss)

After-tax impact, net of non-controlling interests (millions of Canadian dollars, except per share amounts)	Q3 2016	Q2 2016	YTD 2016	Q3 2015	YTD 2015
Shareholder net income (loss), as reported	\$ 50.9	\$ 36.0	\$ 112.9	\$ (17.3)	\$ 23.1
(Gain) loss on derivative financial instruments	\$ (0.1)	\$ (2.3)	\$ (0.6)	\$ 9.3	\$ 18.8
Foreign exchange (gain) loss on long-term debt	\$ 0.9	\$ (0.3)	\$ (6.3)	\$ -	\$ -
Gain on legal settlement, net	\$ -	\$ (6.9)	\$ (6.9)	\$ -	\$ -
Mill closure provision	\$ -	\$ -	\$ -	\$ 14.4	\$ 14.4
Gain on investment in Lakeland Mills Ltd. and Winton Global Lumber Ltd.	\$ -	\$ -	\$ -	\$ -	\$ (6.1)
Mark-to-market loss on Taylor Pulp contingent consideration, net	\$ -	\$ -	\$ -	\$ -	\$ 0.7
Net impact of above items	\$ 0.8	\$ (9.5)	\$ (13.8)	\$ 23.7	\$ 27.8
Adjusted shareholder net income	\$ 51.7	\$ 26.5	\$ 99.1	\$ 6.4	\$ 50.9
Shareholder net income (loss) per share (EPS), as reported	\$ 0.38	\$ 0.27	\$ 0.85	\$ (0.13)	\$ 0.17
Net impact of above items per share	\$ 0.01	\$ (0.07)	\$ (0.10)	\$ 0.18	\$ 0.21
Adjusted shareholder net income per share	\$ 0.39	\$ 0.20	\$ 0.75	\$ 0.05	\$ 0.38

The Company's adjusted shareholder net income for the third quarter of 2016 was \$51.7 million, or \$0.39 per share, compared to an adjusted shareholder net income of \$26.5 million, or \$0.20 per share, for the second quarter of 2016, and an adjusted shareholder net income of \$6.4 million, or \$0.05 per share for the third quarter of 2015. For the nine months ended September 30, 2016, the Company's adjusted shareholder net income was \$99.1 million, or \$0.75 per share, compared to \$50.9 million, or \$0.38 per share, for the nine months ended September 30, 2015.

The Company reported operating income of \$97.4 million for the third quarter of 2016, up \$43.3 million from adjusted operating income of \$54.1 million for the second quarter of 2016. Adjusted operating income in the second quarter of 2016 excluded a one-time pre-tax gain of \$15.5 million related to the settlement of a legal claim with respect to logistics services for the Company's pellet business. Higher earnings in the third quarter of 2016 reflected improved lumber segment results driven largely by higher Western Spruce/Pine/Fir ("SPF") and Southern Yellow Pine ("SYP") unit sales realizations and solid productivity gains in the US South, offset in part by higher market based stumpage and increased log hauling costs in Western Canada. Pulp and paper segment results primarily reflected significantly less scheduled maintenance downtime at the Company's Northern Bleached Softwood Kraft ("NBSK") pulp mills in the current quarter. Also contributing to the third quarter results were higher pulp shipment volumes, increased energy revenues as well as an improvement in pulp and paper unit sales realizations.

North American lumber demand was steady in the third quarter of 2016, with US housing starts broadly in line with the previous quarter, averaging 1,138,000 units on a seasonally adjusted basis. Canadian housing starts were in line with the previous quarter, at an average of 199,000 units on a seasonally adjusted basis. Offshore lumber demand was consistent with the previous quarter.

Lumber unit sales realizations showed a moderate improvement compared to the previous quarter largely reflecting higher average Western SPF lumber prices and a 1% weaker Canadian dollar, as well as a modest increase in average SYP lumber prices. The average benchmark North American Random Lengths Western SPF 2x4 #2&Btr price was up US\$11 per Mfbm, or 4%, compared to the second quarter of 2016, with more pronounced price increases seen across most other dimensions. While the SYP East 2x4 #2 price declined US\$23 per Mfbm, or 5%, compared to the prior quarter, with larger price decreases in 2x10 and 2x12 dimensions, this effect was more than offset by improved pricing for premium SYP products, which represent a significant portion of the Company's product mix in the US South, and price increases in 2x6 and 2x8 dimensions.

Total lumber shipments and production were in line with the second quarter of 2016 with increased planer production at the Houston sawmill, following a kiln fire in the previous quarter, and improved productivity in the US South, offsetting planned capital related downtime at the Company's Polar sawmill in British Columbia and Fulton sawmill in Alabama in the current quarter. Unit manufacturing costs in the third quarter of 2016 were slightly higher

than the previous quarter as the per unit impact of gains in productivity were more than offset by moderate market based stumpage increases and higher diesel costs due in part to longer hauling distances in Western Canada.

Global softwood pulp markets were relatively stable through the third quarter of 2016 with the average North American US-dollar NBSK pulp list price, as published by RISI, up US\$18 per tonne, or 2%, to US\$998 per tonne, while the average list price to China was down US\$22 per tonne, or 4%, to US\$595 per tonne. NBSK pulp unit sales realizations were up slightly compared to the second quarter of 2016 as the benefit of the weaker Canadian dollar more than offset modestly lower NBSK pulp prices in China during the quarter. Bleached Chemi-Thermo Mechanical Pulp ("BCTMP") markets improved in the third quarter of 2016, positively impacting BCTMP unit sales realizations at the Company's Taylor pulp mill. Energy revenues were well up in the current quarter reflecting a return to more normalized power generation levels as well as higher energy prices.

Pulp shipment and production volumes were up 11% and 12%, respectively, from the previous quarter primarily reflecting the quarter-over-quarter impact of scheduled maintenance downtime. In the current quarter, the Company completed scheduled maintenance outages at the Prince George pulp mill and at the Taylor BCTMP mill which reduced pulp production by approximately 3,700 tonnes and 3,100 tonnes, respectively, while in the second quarter of 2016 scheduled maintenance outages and, to a lesser extent, isolated operational disruptions, reduced NBSK pulp production by approximately 40,000 tonnes. NBSK unit manufacturing costs were substantially lower in the current quarter principally as a result of lower maintenance costs.

The current quarter's operating income was up \$63.3 million from operating income, adjusted for one-time items, of \$34.1 million in the third quarter of 2015, reflecting a \$76.4 million increase in lumber segment earnings partly offset by an \$11.3 million decrease in earnings for the pulp and paper segment. Adjusted operating income for the third quarter of 2015 excluded one-time costs of \$19.4 million related to the announced closure of the Company's Canal Flats sawmill and \$6.2 million of Western SPF inventory valuation adjustments in that quarter. The increase in lumber segment earnings primarily reflected higher lumber unit sales realizations due to higher US-dollar benchmark lumber prices, a higher value product mix reflecting the Company's recent acquisitions, and the absence of any export taxes on Canadian shipments to the US in the current quarter. Total lumber production showed a modest increase, for the most part reflecting the Company's recent acquisitions offset in part by the closure of its Canal Flats sawmill in November 2015, while lumber shipments were in line with the comparative quarter. Pulp and paper segment results reflected moderately lower NBSK pulp unit sales realizations and an increase in amortization expense linked to the timing of major maintenance outages offset in part by higher energy revenues in the current quarter. The decrease in NBSK pulp unit sales realizations were largely a factor of lower US-dollar prices to China and a lower-value regional sales mix which outweighed the benefit of the slightly weaker Canadian dollar. Higher North American US-dollar list prices compared to the same quarter in 2015 were offset by increased customer discounts. Pulp unit manufacturing costs were relatively flat compared to the third quarter of 2015 as lower fibre costs were offset by a slight increase in conversion costs.

OPERATING RESULTS BY BUSINESS SEGMENT

Lumber

Selected Financial Information and Statistics – Lumber

(millions of Canadian dollars, unless otherwise noted)	Q3 2016	Q2 2016	YTD 2016	Q3 2015	YTD 2015
Sales	\$ 809.6	\$ 765.3	\$ 2,347.5	\$ 695.3	\$ 2,018.3
Operating income before amortization	\$ 115.7	\$ 110.9	\$ 300.8	\$ 8.4	\$ 129.5
Operating income (loss)	\$ 75.1	\$ 71.5	\$ 180.0	\$ (26.9)	\$ 26.5
Average SPF 2x4 #2&Btr lumber price in US\$ ⁷	\$ 322	\$ 311	\$ 302	\$ 269	\$ 282
Average SPF price in Cdn\$ ⁷	\$ 420	\$ 401	\$ 399	\$ 352	\$ 355
Average SYP East 2x4 #2 lumber price in US\$ ⁸	\$ 414	\$ 437	\$ 419	\$ 331	\$ 376
US housing starts (thousand units SAAR) ⁹	1,138	1,159	1,150	1,156	1,099
Production – SPF lumber (MMfbm) ¹⁰	953.0	955.1	2,874.6	926.6	2,853.6
Production – SYP lumber (MMfbm) ¹⁰	341.2	334.5	1,011.7	301.8	841.2
Shipments – SPF lumber (MMfbm) ¹¹	990.4	995.6	2,992.3	1,014.3	2,991.0
Shipments – SYP lumber (MMfbm) ¹¹	348.1	348.3	1,045.3	322.7	874.7
Shipments – wholesale lumber (MMfbm)	4.9	6.7	18.1	6.0	16.2

⁷ Western Spruce/Pine/Fir, per thousand board feet (Source – Random Lengths Publications, Inc.).

⁸ Southern Yellow Pine, Eastside, per thousand board feet (Source – Random Lengths Publications, Inc.).

⁹ Source – US Census Bureau, seasonally adjusted annual rate (“SAAR”).

¹⁰ Excluding production of trim blocks.

¹¹ Canfor-produced lumber, including lumber purchased for remanufacture and excluding trim blocks. Shipments include volume from the Company's Glulam facilities acquired on October 30, 2015.

Overview

Operating income for the lumber segment was \$75.1 million for the third quarter of 2016, an increase of \$3.6 million compared to operating income of \$71.5 million in the previous quarter, and up \$102.0 million compared to an operating loss of \$26.9 million in the same quarter of 2015. Excluding the aforementioned one-time \$15.5 million gain related to a legal settlement in the previous quarter, the lumber segment's operating income was up \$19.1 million from the second quarter of 2016.

Compared to the second quarter of 2016, the increase in operating income for the lumber segment primarily reflected higher Western SPF and SYP unit sales realizations and solid productivity gains in the US South, offset in part by higher market based stumpage and increased log hauling costs in Western Canada.

Compared to the third quarter of 2015, the increase in adjusted operating income in the current quarter primarily reflected higher lumber unit sales realizations due to higher US-dollar benchmark lumber prices, a higher value product mix reflecting the Company's recent acquisitions, and the absence of any export taxes in the current quarter. Total lumber production showed a modest increase, for the most part reflecting the Company's recent acquisitions of Anthony Forest Products Company (“Anthony”) and Wynndel Box and Lumber (“Wynndel”) on October 30, 2015 and April 15, 2016, respectively, offset in part by the closure of its Canal Flats sawmill in November 2015, while lumber shipments were in line with the same period in the prior year.

The Company's Fort St. John and Chetwynd pellet plants continued through their respective capital ramp-ups during the third quarter of 2016, and operated above target production levels.

Markets

During the third quarter of 2016, increased consumption and steady demand across all sectors contributed to improved Western SPF and SYP lumber prices across most dimensions and grades. Wider-width Western SPF products in particular saw significant price improvements while improved SYP lumber prices were led by strong pricing in 2x6 and 2x8 dimensions coupled with higher pricing for premium SYP products, which represent a significant proportion of the Company's product mix in the US South. Total US housing starts averaged 1,138,000 units SAAR, broadly in line with both the previous quarter and the same period in 2015.

In Canada, lumber demand remained balanced as Canadian housing starts were in line with the previous quarter at an average of 199,000 units on a seasonally adjusted basis. Compared to the third quarter of 2015, Canadian housing starts were down 5%.

Offshore lumber demand remained solid during the third quarter of 2016.

Sales

Sales for the lumber segment for the third quarter of 2016 were \$809.6 million, compared to \$765.3 million in the previous quarter and \$695.3 million for the third quarter of 2015. The 6% increase in sales revenue compared to the prior quarter reflected higher average Western SPF and SYP unit sales realizations, and to a lesser extent, seasonally higher log sales. Relative to the third quarter of 2015, the increase of \$114.3 million, or 16%, in sales revenue reflected both higher Western SPF and SYP lumber unit sales realizations and the Company's recent acquisitions.

Total lumber shipments in the third quarter of 2016, at 1.34 billion board feet, were in line with both comparative quarters.

Western SPF lumber unit sales realizations showed a moderate improvement compared to the previous quarter reflecting the 1 cent, or 1%, weaker Canadian dollar and higher average US-dollar benchmark lumber prices. The benchmark North American Random Lengths Western SPF 2x4 #2&Btr price was up US\$11 per Mfbm, or 4%, compared to the second quarter of 2016, with more pronounced price increases seen across most other dimensions. SYP lumber unit sales realizations showed a modest increase compared to the prior quarter as price increases in SYP 2x6 and 2x8 #2 products and improved pricing for premium SYP products more than offset a price decline of US\$23 per Mfbm, or 5%, in the SYP East 2x4 #2 price, and price decreases in 2x10 and 2x12 dimensions.

Compared to the third quarter of 2015, lumber unit sales realizations were up, reflecting higher US-dollar Western SPF and SYP benchmark lumber prices, the absence of export tax in the current quarter and a higher value sales mix reflecting the recent acquisitions. Compared to the third quarter of 2015, the average North American Random Lengths Western SPF 2x4 #2&Btr price was up US\$53 per Mfbm, or 20%, to US\$322 per Mfbm, while the SYP East 2x4 #2 price was up US\$83 per Mfbm, or 25%, to US\$414 per Mfbm.

Log sales were moderately higher compared to the previous quarter of 2016 due primarily to increased timber harvesting in Western Canada following the seasonal spring break-up in the second quarter of 2016. Total residual fibre revenue in the current quarter was broadly in line with the prior quarter as market-driven increases in sawmill residual chip prices, tied to higher NBSK pulp unit sales realizations, were offset by lower chip sales volumes related in part to capital projects in the current quarter. Compared to the third quarter of 2015, residual fibre revenue was well up due to additional chip sales volumes as a result of the recent acquisitions offset in part by lower residual chip prices in the current quarter. Pellet sales revenues were in line with the prior quarter of 2016, and higher compared to the third quarter of 2015 following the ramp-up of the Fort St. John and Chetwynd pellet plants in the first half of 2016.

Operations

Lumber production, at 1.29 billion board feet, was in line with the previous quarter as increased planer production at the Houston sawmill, following a kiln fire in the previous quarter, and improved productivity in the US South, more than offset planned capital related downtime at the Company's Polar sawmill in British Columbia and Fulton sawmill in Alabama in the current quarter. Compared to the third quarter of 2015, total lumber production was up as result of incremental production from the Company's recent acquisitions and improved productivity, offset in part by the Company's closure of its Canal Flats sawmill in November 2015.

Unit manufacturing costs in the third quarter of 2016 were slightly higher than the previous quarter as the positive impact of productivity gains and stable log costs in the US South were offset by market based stumpage and higher diesel costs due in part to longer hauling distances in Western Canada. Compared to the third quarter of 2015, unit manufacturing costs were moderately higher, primarily reflecting costs associated with the high-value products manufactured at the recently acquired operations and to a lesser extent, higher market based stumpage and log hauling costs in Western Canada.

Pulp and Paper

Selected Financial Information and Statistics – Pulp and Paper¹²

(millions of Canadian dollars, unless otherwise noted)	Q3	Q2	YTD	Q3	YTD
	2016	2016	2016	2015	2015
Sales	\$ 291.6	\$ 257.0	\$ 843.9	\$ 294.6	\$ 854.0
Operating income before amortization ¹³	\$ 50.0	\$ 22.1	\$ 129.9	\$ 58.6	\$ 154.0
Operating income	\$ 31.0	\$ 5.2	\$ 75.3	\$ 42.3	\$ 106.2
Average pulp price delivered to US – US\$ ¹⁴	\$ 998	\$ 980	\$ 974	\$ 967	\$ 981
Average price in Cdn\$ ¹⁴	\$ 1,303	\$ 1,263	\$ 1,288	\$ 1,266	\$ 1,236
Production – pulp (000 mt)	312.5	279.6	913.9	310.5	913.3
Production – paper (000 mt)	32.4	32.1	99.8	34.6	101.0
Shipments – pulp (000 mt)	319.8	287.2	926.1	307.4	886.7
Shipments – paper (000 mt)	35.5	38.5	108.9	32.1	98.0

¹² 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 and BCTMP.

¹³ Amortization includes amortization of certain capitalized major maintenance costs.

¹⁴ Per tonne, NBSK pulp list price delivered to US (Resource Information Systems, Inc.).

Overview

Operating income for the pulp and paper segment was \$31.0 million for the third quarter, up \$25.8 million from the second quarter of 2016 and down \$11.3 million from the same quarter in 2015.

The improvement in pulp and paper segment operating income from the second quarter of 2016 reflected a return to more normal operating rates following significant scheduled maintenance downtime at the NBSK pulp mills in the second quarter of 2016. Also contributing to improved pulp and paper segment results in the third quarter of 2016 were increased pulp shipment volumes, higher energy revenues and a slight increase in unit NBSK pulp sales realizations. Unit manufacturing costs were substantially lower in the current quarter principally as a result of lower maintenance costs. In the previous quarter, certain Scientific Research and Experimental Development (“SR&ED”) tax credits were recognized while none were recognized in the current quarter.

Compared to the third quarter of 2015, the decrease in pulp and paper segment results reflected moderately lower NBSK pulp unit sales realizations as a result of lower average NBSK pulp prices in China combined with lower shipments to the higher-margin North American market in the current quarter. Unit manufacturing costs were relatively flat compared to the third quarter of 2015 as lower fibre costs offset a slight increase in conversion costs. Amortization expense was higher compared to the third quarter of 2015 as a result of the timing of major maintenance outages.

Markets

Global softwood pulp markets were relatively stable through the third quarter of 2016 with average NBSK pulp list prices to North America and Europe up slightly and average list prices to China decreasing modestly from the second quarter of 2016. Pulp producer inventories as of September 2016 were at 30 days of supply, an increase of 2 days from June 2016¹⁵ partly reflecting minimal industry downtime during the third quarter of 2016. Market conditions are generally considered balanced when inventories are in the 27-30 days of supply range.

Global shipments of bleached softwood pulp decreased slightly in July before rebounding in August with global shipments up 3.3% for the first nine months of 2016 compared to the same period in 2015. The increase was primarily driven by increased bleached softwood pulp shipments to China and, to a lesser extent, North America¹⁶.

¹⁵ 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”).

¹⁶ As reported by PPPC statistics.

Sales

Total pulp shipments in the third quarter of 2016 were 319,800 tonnes, up 32,600 tonnes, or 11%, from the previous quarter reflecting increased NBSK pulp production in the current quarter. BCTMP shipments made up approximately 16% of the current quarter's total pulp shipments, and represented a 5% decrease from the previous quarter. Compared to the third quarter of 2015, pulp shipments were up 12,400 tonnes, or 4%, with higher shipments to Korea partly offset by lower shipments to the US.

The average North American US-dollar NBSK pulp list price of US\$998 per tonne, as published by RISI, was up US\$18 per tonne, or 2%, from the second quarter of 2016 while the average list price to China was down US\$22 per tonne, or 4% to US\$595 per tonne. Average NBSK pulp unit sales realizations showed a slight increase compared to the second quarter of 2016 principally reflecting the benefit of the 1% weaker Canadian dollar offset, in part, by modestly lower list prices to China in the third quarter of 2016. BCTMP markets improved in the third quarter of 2016 positively impacting unit sales realizations at the Company's Taylor pulp mill.

Compared to the third quarter of 2015, the average North American US-dollar NBSK pulp list price was up US\$31 per tonne, or 3%, while the average US-dollar NBSK pulp list price to China was down US\$43 per tonne, or 7%. With respect to North American markets, the increase in list price was partly offset by increased customer discounts. The Company's average NBSK pulp unit sales realizations were moderately lower than the third quarter of 2015 as lower US-dollar prices to China and a lower-value regional sales mix outweighed the benefit of the slightly weaker Canadian dollar. BCTMP unit sales realizations were up slightly compared to third quarter of 2015 reflecting the recovery of BCTMP prices in the current quarter.

Energy revenues returned to more normalized levels in the third quarter of 2016 following lower power generation due to the significant scheduled maintenance outages and seasonally lower energy prices in the second quarter of 2016. Compared to the same quarter in 2015, energy revenues were also up principally due to increased power generation in the current quarter.

Paper unit sales realizations in the third quarter of 2016 were up modestly from the previous quarter reflecting a higher value sales mix and, to a lesser extent, the 1% weaker Canadian dollar. Compared to the same quarter in 2015, paper unit sales realizations were modestly lower reflecting the decrease in US-dollar kraft paper prices in export markets through the second half of 2015 partly offset by a higher proportion of prime bleached paper shipments in the current quarter.

Operations

Pulp production in the third quarter of 2016 at 312,500 tonnes was up 32,900 tonnes, or 12%, from the second quarter of 2016 principally reflecting the previous quarter's scheduled maintenance downtime at all three NBSK pulp mills. In the current quarter, the Company completed scheduled maintenance outages at the Prince George pulp mill and the Taylor BCTMP mill, reducing pulp production by 3,700 tonnes of NBSK pulp and 3,100 tonnes of BCTMP, respectively. BCTMP production made up approximately 16% of the Company's total pulp production in the third quarter of 2016.

Compared to the third quarter of 2015, pulp production was up 2,000 tonnes, or 1%, reflecting the quarter-over-quarter impact of the scheduled maintenance outages as well as higher operating rates at the Taylor BCTMP mill in the current quarter. In the comparative third quarter of 2015, the Company completed a scheduled maintenance outage at the Northwood pulp mill which reduced NBSK pulp production by approximately 6,000 tonnes.

Pulp unit manufacturing costs were well down in the current quarter, compared to the previous quarter, largely reflecting costs associated with the major maintenance outages in the second quarter of 2016. Fibre costs were relatively flat compared to the previous quarter reflecting slightly higher delivered costs for sawmill residual chips (linked to Canadian dollar NBSK pulp unit sales realizations) offset by a decrease in the proportion of higher-cost whole log chips purchased.

Pulp unit manufacturing costs were broadly in line with the third quarter of 2015 as lower fibre costs were offset by slightly higher chemical costs in the current quarter. Fibre costs were down compared to the same quarter in the prior year reflecting lower market prices for delivered sawmill residual chips as well as a decrease in the proportion of higher-cost whole log chips.

Paper production of 32,400 tonnes for the third quarter of 2016 was broadly in line with the second quarter of 2016 and down 2,200 tonnes from the same quarter in 2015. During the third quarter of 2016, the kraft paper machine

completed a nine-day scheduled maintenance outage reducing paper production by approximately 3,300 tonnes. This compared to a five-day scheduled outage in the second quarter of 2016. Despite the longer scheduled maintenance outage in the current quarter, paper production was relatively flat quarter-over-quarter reflecting stronger operating rates in the current quarter. No scheduled maintenance outages were completed in the comparative third quarter in 2015.

Paper unit manufacturing costs were relatively flat compared to the second quarter of 2016 despite the more significant scheduled maintenance outage in the current quarter. Compared to the third quarter of 2015, paper unit manufacturing costs were slightly lower principally reflecting lower slush pulp costs in the current quarter.

Unallocated and Other Items

Selected Financial Information

(millions of Canadian dollars)	Q3 2016	Q2 2016	YTD 2016	Q3 2015	YTD 2015
Operating loss of Panels operations ¹⁷	\$ (0.4)	\$ (0.3)	\$ (1.4)	\$ (1.5)	\$ (2.8)
Corporate costs	\$ (8.3)	\$ (6.8)	\$ (21.8)	\$ (5.4)	\$ (20.1)
Finance expense, net	\$ (8.2)	\$ (8.4)	\$ (24.8)	\$ (6.4)	\$ (17.3)
Foreign exchange gain (loss) on long-term debt	\$ (1.1)	\$ 0.4	\$ 7.2	\$ -	\$ -
Gain (loss) on derivative financial instruments	\$ 0.1	\$ 3.1	\$ 0.8	\$ (14.9)	\$ (30.2)
Other income (expense), net	\$ 1.3	\$ 0.4	\$ (8.4)	\$ 10.1	\$ 24.2

¹⁷ 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 \$8.3 million for the third quarter of 2016, \$1.5 million higher than the previous quarter largely as a result of higher share based compensation expenses, and \$2.9 million higher than the third quarter of 2015 reflecting both higher share based compensation expenses and increased costs related to the expiry of the Softwood Lumber Agreement.

Net finance expense at \$8.2 million for the third quarter of 2016 was broadly in line with the previous quarter and up \$1.8 million from the third quarter of 2015. The increase principally reflected higher interest expense related to the US-dollar term debt financings (associated with the Company's 2015 US South acquisitions) completed at the beginning of the fourth quarter of 2015. In the third quarter of 2016, the Company recognized a foreign exchange loss on its US-dollar term debt held by Canadian entities due to the weaker 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 third quarter of 2016, the Company recorded a net gain of \$0.1 million related to its derivatives instruments, reflecting both realized and unrealized gains on lumber future contracts and crude oil collars settled during the quarter.

Other income, net of \$1.3 million in the third quarter of 2016 compared to other income of \$0.4 million in the second quarter of 2016 principally reflected 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)	Q3 2016	Q2 2016	YTD 2016	Q3 2015	YTD 2015
Foreign exchange translation differences for foreign operations, net of tax	\$ 3.8	\$ (0.8)	\$ (21.5)	\$ 29.2	\$ 57.3
Defined benefit actuarial gains (losses), net of tax	\$ (1.5)	\$ (33.6)	\$ (52.7)	\$ 9.9	\$ 23.1
Change in fair value of available-for-sale financial assets, net of tax	\$ 0.2	\$ -	\$ 0.2	\$ -	\$ -
Other comprehensive income (loss), net of tax	\$ 2.5	\$ (34.4)	\$ (74.0)	\$ 39.1	\$ 80.4

In the third quarter of 2016, the Company recorded an after-tax loss of \$1.5 million in relation to changes in the valuation of the Company's employee future benefit plans. Compared to the second quarter of 2016, the loss principally reflected a 0.1% decrease in the discount rate used to value the employee future benefit plans offset in part by the return generated on plan assets. This compared to an after-tax loss of \$33.6 million in the previous quarter and an after-tax gain of \$9.9 million in the third quarter of 2015.

In addition, the Company recorded a gain of \$3.8 million in the third quarter of 2016 related to foreign exchange differences for foreign operations, resulting from the weakening of the Canadian dollar relative to the US dollar in the quarter. This compared to a loss of \$0.8 million in the previous quarter and a gain of \$29.2 million in the third quarter of 2015.

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)	Q3 2016	Q2 2016	YTD 2016	Q3 2015	YTD 2015
Increase (decrease) in cash and cash equivalents ¹⁸	\$ (16.4)	\$ 25.1	\$ 47.8	\$ (59.3)	\$ (81.6)
Operating activities	\$ 148.6	\$ 223.3	\$ 422.8	\$ 59.9	\$ 219.8
Financing activities	\$ (48.4)	\$ (109.6)	\$ (124.3)	\$ (44.6)	\$ (34.1)
Investing activities	\$ (116.6)	\$ (88.6)	\$ (250.7)	\$ (74.6)	\$ (267.3)
Ratio of current assets to current liabilities			1.7:1		1.3:1
Net debt to capitalization			19.1%		15.3%

¹⁸ Increase (decrease) 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 \$148.6 million in the third quarter of 2016, compared to cash generated of \$223.3 million in the previous quarter of 2016 and cash generated of \$59.9 million in the third quarter of 2015. The decrease in operating cash flows from the previous quarter primarily reflected a seasonal drawdown of log inventories in Western Canada in the second quarter of 2016 and increased pension plan contributions in the current quarter, offset in part by increased earnings in the current quarter. Compared to the third quarter of 2015, the higher operating cash flows was primarily attributable to higher cash earnings in the current quarter offset in part by increased pension plan contributions in the current quarter.

Cash used in financing activities was \$48.4 million in the current quarter, compared to cash used of \$109.6 million in the previous quarter and cash used of \$44.6 million in the same quarter of 2015. During the current quarter, the Company made cash distributions of \$11.6 million to non-controlling shareholders, up \$4.3 million from the previous quarter. Compared to the same period in the previous year, distributions were down \$31.5 million reflecting distributions made to the non-controlling shareholders of CPPI for a special dividend that was paid in the third quarter of 2015. The Company had \$96.0 million outstanding on its Canadian operating loan facility at the end of the third quarter of 2016, a decrease of \$33.0 million from the prior quarter and a decrease of \$105.0 million from the end of the third quarter of 2015.

Cash used for investing activities was \$116.6 million in the current quarter, compared to \$88.6 million in the previous quarter and \$74.6 million in the same quarter of 2015. Cash used for capital additions was \$57.1 million, down \$9.1 million from the previous quarter and down \$4.0 million from the third quarter of 2015. Current quarter capital expenditures included costs related to major upgrades at the Company's Polar sawmill in British Columbia and Fulton sawmill in Alabama that were substantially completed in the quarter, and various smaller high-returning capital projects at the Company's US South lumber operations. In the pulp and paper segment, capital expenditures primarily related to capital expenditures associated with scheduled maintenance outages completed during the quarter as well as certain capital improvement projects. During the quarter, the Company completed the final phase of the acquisition of Scotch & Gulf Lumber ("Scotch Gulf") for cash consideration of \$61.6 million (US\$47.3 million). This increased the Company's ownership interest in Scotch Gulf from 50% to 100%.

Liquidity and Financial Requirements

At September 30, 2016, the Company on a consolidated basis had cash of \$141.8 million, \$96.0 million drawn on its operating loans, and an additional \$48.3 million reserved for several standby letters of credit. During the quarter, the Company repaid \$33.0 million of its operating loan, and at period end had total available undrawn operating loans of \$355.7 million.

Excluding CPPI, the Company's bank operating loans at September 30, 2016 totaled \$350.0 million, of which \$96.0 million was drawn, and an additional \$39.2 million reserved for several standby letters of credit, the majority of which related to unregistered pension plans. In 2015, Canfor's principal operating loan facilities, excluding CPPI, were extended to September 28, 2020 and certain financial covenants were removed. 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.

In 2015, the Company repaid \$175.0 million of its floating interest rate term debt and completed a new \$125.0 million floating rate interest rate term debt financing with a maturity of September 28, 2020. Also in 2015, the Company entered into a US\$100.0 million term debt financing, repayable in three equal tranches on October 2, 2023, October 2, 2024 and the balance due on October 2, 2025, and entered into a new eight-year floating interest rate term loan for an additional US\$100.0 million.

At September 30, 2016, CPPI had a \$110.0 million bank operating loan facility with a maturity date of January 31, 2019 and \$9.1 million of 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 third quarter of 2016 was 19.1%. For Canfor, excluding CPPI, net debt to capitalization at the end of the third quarter of 2016 was 20.6%.

On March 7, 2016, 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, 2016. The renewed normal course issuer bid is set to expire on March 6, 2017. During the third quarter of 2016, Canfor and Canfor Pulp did not purchase any common shares. As at October 26, 2016, there were 132,804,573 common shares of the Company outstanding. Canfor and CPPI may purchase more shares through the balance of 2016 subject to the terms of their normal course issuer bids.

Acquisition of Scotch & Gulf Lumber

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

Licella Pulp Joint Venture

On May 27, 2016, CPPI and Licella Fibre Fuel Pty Ltd. ("Licella") agreed to form a joint venture under the name Licella Pulp Joint Venture to investigate opportunities to integrate Licella's Catalytic Hydrothermal Reactor platform into CPPI's pulp mills with the objective of economically converting biomass into biofuels and biochemicals.

Licella is a subsidiary of Ignite Energy Resources Ltd. ("IER") an Australian energy technology development company. In conjunction with the joint venture agreement, CPPI has entered a \$7.0 million convertible credit facility with IER, which matures on June 21, 2019. The advances on this credit facility are convertible, at CPPI's option, into common shares of IER.

During the second quarter of 2016, CPPI advanced \$3.5 million to IER and exercised its option to convert the amount advanced into common shares of IER. The remaining credit facility balance of \$3.5 million is anticipated to be advanced to IER during the fourth quarter of 2016.

Commitments and Subsequent Events

On January 2, 2015, the first phase of the acquisition of Beadles & Balfour closed representing an initial 55% ownership interest. Canfor obtained control for accounting purposes with the consolidation of Beadles & Balfour starting on January 2, 2015. The final phase whereby Canfor will wholly own Beadles & Balfour is scheduled to close at the beginning of 2017. The aggregate purchase price for Beadles & Balfour is US\$68.0 million plus working capital.

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 early July. The remaining consideration of \$18.0 million will be paid in two installments. The first installment of \$14.4 million is scheduled to be paid on April 15, 2017 and the second installment of \$3.6 million is scheduled to be paid on October 15, 2017.

OUTLOOK

Lumber

Looking ahead, the US housing market is forecast to continue its gradual recovery through the balance of 2016. 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. There remains a risk of market place volatility absent a new Softwood Lumber Agreement. For the Company's key offshore lumber markets, demand is anticipated to show a modest improvement through the fourth quarter.

Pulp and Paper

NBSK pulp list prices have held up well to date in October; however, with new pulp capacity forecast to come on line there is risk of downward pressure on pricing. For the month of October 2016, Canfor Pulp's announced NBSK pulp list price is US\$1,000 per tonne in North America.

All of Canfor Pulp's scheduled maintenance outages have now been completed for 2016.

OUTSTANDING SHARES

At October 26, 2016, there were 132,804,573 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 is in the process of assessing the impact, if any, on the financial statements of this new standard.

In July 2014, the IASB issued IFRS 9, *Financial Instruments*. The required adoption date for IFRS 9 is January 1, 2018 and the Company is in the process of assessing the impact, if any, on the financial statements of this new standard.

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.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

During the quarter ended September 30, 2016, 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 2015 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.

Softwood Lumber Agreement

On October 12, 2016, the Softwood Lumber Agreement standstill period expired. There is a material risk of US trade action being initiated against Canadian lumber producers which could result in the imposition of duties on lumber shipments to the US.

SELECTED QUARTERLY FINANCIAL INFORMATION

	Q3 2016	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015	Q4 2014
Sales and income (millions of Canadian dollars)								
Sales	\$ 1,101.2	\$ 1,022.3	\$ 1,067.9	\$ 1,053.0	\$ 989.9	\$ 952.4	\$ 930.0	\$ 860.4
Operating income	\$ 97.4	\$ 69.6	\$ 65.1	\$ 31.8	\$ 8.5	\$ 17.6	\$ 83.7	\$ 62.0
Net income	\$ 66.4	\$ 51.0	\$ 42.3	\$ 19.6	\$ 1.4	\$ 23.9	\$ 47.0	\$ 40.5
Shareholder net income (loss)	\$ 50.9	\$ 36.0	\$ 26.0	\$ 1.6	\$ (17.3)	\$ 11.1	\$ 29.3	\$ 29.9
Per common share (Canadian dollars)								
Shareholder net income (loss) – basic and diluted	\$ 0.38	\$ 0.27	\$ 0.20	\$ 0.01	\$ (0.13)	\$ 0.08	\$ 0.22	\$ 0.22
Book value ¹⁹	\$ 10.70	\$ 9.92	\$ 9.91	\$ 10.02	\$ 10.00	\$ 9.86	\$ 9.76	\$ 10.25
Common Share Repurchases								
Share volume repurchased (000 shares)	-	-	-	1,050	-	410	1,112	-
Shares repurchased (millions of Canadian dollars)	\$ -	\$ -	\$ -	\$ 20.0	\$ -	\$ 9.9	\$ 29.3	\$ -
Statistics								
Lumber shipments (MMfbm)	1,343	1,351	1,362	1,361	1,343	1,367	1,172	1,092
Pulp shipments (000 mt)	320	287	319	356	307	292	287	314
Average exchange rate – US\$/Cdn\$	\$ 0.766	\$ 0.776	\$ 0.728	\$ 0.749	\$ 0.764	\$ 0.813	\$ 0.806	\$ 0.881
Average Western SPF 2x4 #2&Btr lumber price (US\$)	\$ 322	\$ 311	\$ 272	\$ 263	\$ 269	\$ 270	\$ 308	\$ 340
Average SYP (East) 2x4 #2 lumber price (US\$)	\$ 414	\$ 437	\$ 407	\$ 400	\$ 331	\$ 383	\$ 413	\$ 427
Average NBSK pulp list price delivered to US (US\$)	\$ 998	\$ 980	\$ 943	\$ 945	\$ 967	\$ 980	\$ 995	\$ 1,025

¹⁹ 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.

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)	Q3 2016	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015	Q4 2014
Shareholder net income (loss), as reported	\$ 50.9	\$ 36.0	\$ 26.0	\$ 1.6	\$ (17.3)	\$ 11.1	\$ 29.3	\$ 29.9
(Gain) loss on derivative financial instruments	\$ (0.1)	\$ (2.3)	\$ 1.8	\$ (1.2)	\$ 9.3	\$ (7.7)	\$ 17.2	\$ 5.2
Foreign exchange (gain) loss on long-term debt	\$ 0.9	\$ (0.3)	\$ (6.9)	\$ 5.1	\$ -	\$ -	\$ -	\$ -
Gain on legal settlement, net ²⁰	\$ -	\$ (6.9)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
One-time costs associated with pension plan legislation changes	\$ -	\$ -	\$ -	\$ 2.4	\$ -	\$ -	\$ -	\$ -
Mill closure provisions ²¹	\$ -	\$ -	\$ -	\$ -	\$ 14.4	\$ -	\$ -	\$ -
Gain on investment in Lakeland Mills Ltd. and Winton Global Lumber Ltd. ²²	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (6.1)	\$ -	\$ -
Mark-to-market loss on Taylor pulp mill contingent consideration, net ²³	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 0.7	\$ -	\$ -
Net impact of above items	\$ 0.8	\$ (9.5)	\$ (5.1)	\$ 6.3	\$ 23.7	\$ (13.1)	\$ 17.2	\$ 5.2
Adjusted shareholder net income (loss)	\$ 51.7	\$ 26.5	\$ 20.9	\$ 7.9	\$ 6.4	\$ (2.0)	\$ 46.5	\$ 35.1
Shareholder net income (loss) per share (EPS), as reported	\$ 0.38	\$ 0.27	\$ 0.20	\$ 0.01	\$ (0.13)	\$ 0.08	\$ 0.22	\$ 0.22
Net impact of above items per share ²⁴	\$ 0.01	\$ (0.07)	\$ (0.04)	\$ 0.05	\$ 0.18	\$ (0.10)	\$ 0.13	\$ 0.04
Adjusted net income (loss) per share	\$ 0.39	\$ 0.20	\$ 0.16	\$ 0.06	\$ 0.05	\$ (0.02)	\$ 0.35	\$ 0.26

²⁰ During the second quarter of 2016, the Company recorded a one-time 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.

²¹ During the third quarter of 2015, the Company recorded one-time costs of \$19.4 million (before tax) associated with the announced closure of the Canal Flats sawmill.

²² 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).

²³ 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.

²⁴ 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 September 30, 2016	As at December 31, 2015
ASSETS		
Current assets		
Cash and cash equivalents	\$ 141.8	\$ 97.5
Accounts receivable - Trade	204.0	191.8
- Other	62.0	61.1
Inventories (Note 2)	534.1	587.2
Prepaid expenses	77.3	53.2
Total current assets	1,019.2	990.8
Property, plant and equipment	1,458.4	1,445.1
Timber licenses	536.7	515.2
Goodwill and other intangible assets	231.2	241.0
Long-term investments and other (Note 3)	56.2	98.6
Retirement benefit surplus (Note 5)	0.8	2.7
Deferred income taxes, net	1.9	1.2
Total assets	\$ 3,304.4	\$ 3,294.6
LIABILITIES		
Current liabilities		
Operating loans (Note 4)	\$ 96.0	\$ 158.0
Accounts payable and accrued liabilities	408.2	350.3
Current portion of deferred reforestation obligations	49.9	50.7
Forward purchase liabilities (Note 12)	40.8	76.1
Total current liabilities	594.9	635.1
Long-term debt (Note 4)	441.6	456.2
Retirement benefit obligations (Note 5)	319.3	258.6
Deferred reforestation obligations	60.4	61.6
Other long-term liabilities	26.4	20.1
Forward purchase liability (Note 12)	-	43.0
Deferred income taxes, net	185.7	192.3
Total liabilities	\$ 1,628.3	\$ 1,666.9
EQUITY		
Share capital	\$ 1,047.7	\$ 1,047.7
Contributed surplus and other equity	(4.6)	(74.5)
Retained earnings	299.9	257.7
Accumulated other comprehensive income	78.6	100.0
Total equity attributable to equity shareholders of the Company	1,421.6	1,330.9
Non-controlling interests	254.5	296.8
Total equity	\$ 1,676.1	\$ 1,627.7
Total liabilities and equity	\$ 3,304.4	\$ 3,294.6

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 September 30,		9 months ended September 30,	
	2016	2015	2016	2015
Sales	\$ 1,101.2	\$ 989.9	\$ 3,191.4	\$ 2,872.3
Costs and expenses				
Manufacturing and product costs	754.1	709.1	2,219.1	2,025.1
Freight and other distribution costs	161.0	165.3	485.3	470.8
Export taxes	-	14.3	-	24.8
Amortization	60.6	52.6	178.7	154.1
Selling and administration costs	28.3	20.0	76.1	64.0
Restructuring, mill closure and severance costs	0.6	20.1	3.1	23.7
	1,004.6	981.4	2,962.3	2,762.5
Equity income (Note 3)	0.8	-	3.0	-
Operating income	97.4	8.5	232.1	109.8
Finance expense, net	(8.2)	(6.4)	(24.8)	(17.3)
Foreign exchange gain (loss) on long-term debt	(1.1)	-	7.2	-
Gain (loss) on derivative financial instruments (Note 6)	0.1	(14.9)	0.8	(30.2)
Other income (expense), net	1.3	10.1	(8.4)	24.2
Net income (loss) before income taxes	89.5	(2.7)	206.9	86.5
Income tax recovery (expense) (Note 7)	(23.1)	4.1	(47.2)	(14.2)
Net income	\$ 66.4	\$ 1.4	\$ 159.7	\$ 72.3
Net income (loss) attributable to:				
Equity shareholders of the Company	\$ 50.9	\$ (17.3)	\$ 112.9	\$ 23.1
Non-controlling interests	15.5	18.7	46.8	49.2
Net income	\$ 66.4	\$ 1.4	\$ 159.7	\$ 72.3
Net income (loss) per common share: (in Canadian dollars)				
Attributable to equity shareholders of the Company				
- Basic and diluted (Note 8)	\$ 0.38	\$ (0.13)	\$ 0.85	\$ 0.17

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 September 30,		9 months ended September 30,	
	2016	2015	2016	2015
Net income	\$ 66.4	\$ 1.4	\$ 159.7	\$ 72.3
Other comprehensive income (loss)				
Items that will not be recycled through net income:				
Defined benefit pension plan actuarial gains (losses) (Note 5)	(2.0)	13.3	(71.2)	31.2
Income tax recovery (expense) on defined benefit pension plan actuarial gains (losses) (Note 7)	0.5	(3.4)	18.5	(8.1)
	(1.5)	9.9	(52.7)	23.1
Items that may be recycled through net income:				
Foreign exchange translation differences for foreign operations, net of tax	3.8	29.2	(21.5)	57.3
Change in fair value of available-for-sale financial instruments, net of tax	0.2	-	0.2	-
Other comprehensive income (loss), net of tax	2.5	39.1	(74.0)	80.4
Total comprehensive income	\$ 68.9	\$ 40.5	\$ 85.7	\$ 152.7
Total comprehensive income attributable to:				
Equity shareholders of the Company	\$ 53.8	\$ 20.4	\$ 45.3	\$ 101.0
Non-controlling interests	15.1	20.1	40.4	51.7
Total comprehensive income	\$ 68.9	\$ 40.5	\$ 85.7	\$ 152.7

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 September 30,		9 months ended September 30,	
	2016	2015	2016	2015
Share capital				
Balance at beginning of period	\$ 1,047.7	\$ 1,056.0	\$ 1,047.7	\$ 1,068.0
Share purchases (Note 8)	-	-	-	(12.0)
Balance at end of period	\$ 1,047.7	\$ 1,056.0	\$ 1,047.7	\$ 1,056.0
Contributed surplus and other equity				
Balance at beginning of period	\$ (74.5)	\$ (74.5)	\$ (74.5)	\$ 31.9
Forward purchase liabilities related to acquisitions (Note 12)	69.9	-	69.9	(106.4)
Balance at end of period	\$ (4.6)	\$ (74.5)	\$ (4.6)	\$ (74.5)
Retained earnings				
Balance at beginning of period	\$ 270.0	\$ 283.1	\$ 257.7	\$ 260.1
Net income (loss) attributable to equity shareholders of the Company	50.9	(17.3)	112.9	23.1
Defined benefit pension plan actuarial gains (losses), net of tax	(1.0)	8.5	(46.2)	20.6
Share purchases (Note 8)	-	-	-	(27.2)
Elimination of non-controlling interests (Note 12)	(20.0)	-	(20.0)	-
Acquisition of non-controlling interests (Note 8)	-	(1.6)	(4.5)	(3.9)
Balance at end of period	\$ 299.9	\$ 272.7	\$ 299.9	\$ 272.7
Accumulated other comprehensive income				
Balance at beginning of period	\$ 74.7	\$ 55.3	\$ 100.0	\$ 27.2
Foreign exchange translation differences for foreign operations, net of tax	3.8	29.2	(21.5)	57.3
Change in fair value of available-for-sale financial instruments, net of tax	0.1	-	0.1	-
Balance at end of period	\$ 78.6	\$ 84.5	\$ 78.6	\$ 84.5
Total equity attributable to equity shareholders of the Company	\$ 1,421.6	\$ 1,338.7	\$ 1,421.6	\$ 1,338.7
Non-controlling interests				
Balance at beginning of period	\$ 290.7	\$ 318.1	\$ 296.8	\$ 250.4
Net income attributable to non-controlling interests	15.5	18.7	46.8	49.2
Defined benefit pension plan actuarial gains (losses) attributable to non-controlling interests, net of tax	(0.5)	1.4	(6.5)	2.5
Change in fair value of available-for-sale financial instruments, net of tax	0.1	-	0.1	-
Distributions to non-controlling interests	(11.6)	(43.1)	(23.1)	(52.8)
Elimination of non-controlling interests (Note 12)	(39.7)	-	(39.7)	-
Acquisition of non-controlling interests (Note 8)	-	(5.3)	(19.9)	(12.0)
Non-controlling interests arising on acquisitions (Note 12)	-	-	-	52.5
Balance at end of period	\$ 254.5	\$ 289.8	\$ 254.5	\$ 289.8
Total equity	\$ 1,676.1	\$ 1,628.5	\$ 1,676.1	\$ 1,628.5

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

Canfor Corporation

Condensed Consolidated Statements of Cash Flows

	3 months ended September 30,		9 months ended September 30,	
(millions of Canadian dollars, unaudited)	2016	2015	2016	2015
Cash generated from (used in):				
Operating activities				
Net income	\$ 66.4	\$ 1.4	\$ 159.7	\$ 72.3
Items not affecting cash:				
Amortization	60.6	52.6	178.7	154.1
Income tax expense (recovery)	23.1	(4.1)	47.2	14.2
Long-term portion of deferred reforestation obligations	(5.3)	(4.0)	(1.1)	(2.0)
Foreign exchange loss (gain) on long-term debt	1.1	-	(7.2)	-
Changes in mark-to-market value of derivative financial instruments	(1.0)	1.3	(4.4)	1.7
Employee future benefits	3.3	3.7	9.7	11.1
Finance expense, net	8.2	6.4	24.8	17.3
Gain on legal settlement, net (Note 11)	-	-	(15.5)	-
Equity income	(0.8)	-	(3.0)	-
Mill closure provisions	-	19.4	-	19.4
Other, net	3.3	(1.5)	0.4	(1.5)
Defined benefit pension plan contributions, net	(15.2)	2.7	(25.6)	0.2
Cash received from legal settlement (Note 11)	16.3	-	16.3	-
Income taxes paid, net	(13.5)	(25.1)	(30.1)	(59.2)
	146.5	52.8	349.9	227.6
Net change in non-cash working capital (Note 9)	2.1	7.1	72.9	(7.8)
	148.6	59.9	422.8	219.8
Financing activities				
Change in operating bank loans (Note 4)	(33.0)	59.0	(62.0)	133.0
Repayment of long-term debt, net	-	(50.0)	-	(50.0)
Finance expenses paid	(3.5)	(3.8)	(14.5)	(9.4)
Share purchases (Note 8)	-	-	-	(39.2)
Acquisition of non-controlling interests (Note 8)	(0.3)	(6.7)	(24.7)	(15.7)
Cash distributions paid to non-controlling interests	(11.6)	(43.1)	(23.1)	(52.8)
	(48.4)	(44.6)	(124.3)	(34.1)
Investing activities				
Additions to property, plant and equipment and intangible assets, net	(57.1)	(61.1)	(170.4)	(156.3)
Timber investment loan (Note 3)	-	(30.0)	-	(30.0)
Proceeds on sale of Lakeland Winton (Note 3)	-	15.0	-	15.0
Acquisitions (Note 12)	(64.2)	-	(83.9)	(139.5)
Change in restricted cash	-	-	-	50.2
Other, net	4.7	1.5	3.6	(6.7)
	(116.6)	(74.6)	(250.7)	(267.3)
Foreign exchange gain (loss) on cash and cash equivalents	0.7	2.1	(3.5)	10.0
Increase (decrease) in cash and cash equivalents*	(15.7)	(57.2)	44.3	(71.6)
Cash and cash equivalents at beginning of period*	157.5	143.9	97.5	158.3
Cash and cash equivalents at end of period*	\$ 141.8	\$ 86.7	\$ 141.8	\$ 86.7

*Cash and cash equivalents include cash on hand less unrepresented 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 nine months ended September 30, 2016 and 2015
(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, 2015, available at www.canfor.com or www.sedar.com.

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.

These financial statements were authorized for issue by the Company's Board of Directors on October 26, 2016.

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 is in the process of assessing the impact, if any, on the financial statements of this new standard.

In July 2014, the IASB issued IFRS 9, *Financial Instruments*. The required adoption date for IFRS 9 is January 1, 2018 and the Company is in the process of assessing the impact, if any, on the financial statements of this new standard.

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 September 30, 2016	As at December 31, 2015
Logs	\$ 116.7	\$ 169.1
Finished products	278.1	285.4
Residual fibre	23.0	20.8
Processing materials and supplies	116.3	111.9
	\$ 534.1	\$ 587.2

The above inventory balances are stated after inventory write-downs from cost to net realizable value. There were no inventory write-downs at September 30, 2016 (December 31, 2015 - \$0.5 million).

3. Long-Term Investments and Other

(millions of Canadian dollars, unaudited)	As at September 30, 2016	As at December 31, 2015
Investments	\$ 18.7	\$ 16.2
Conifex timber investment loan	-	30.5
Equity investment in Anthony EACOM Inc.	17.2	16.2
Lakeland Winton receivable	-	15.0
Other deposits, loans and advances	20.3	20.7
	\$ 56.2	\$ 98.6

On July 1, 2015, the Company sold its 33.3% investment in Lakeland Mills Ltd. and Winton Global Lumber Ltd. ("Lakeland Winton") for consideration of \$30.0 million and recorded a gain of \$7.0 million in Other Income. The first installment of \$15.0 million was received on July 1, 2015 and the second installment for \$15.0 million is scheduled to be received on July 1, 2017 and as such has been reclassified to Other Accounts Receivable in the third quarter of 2016.

During 2015, the Company completed an investment agreement with Conifex Inc. ("Conifex"), a subsidiary of Conifex Timber Inc. As part of the agreement, Conifex issued a five-year senior secured note payable to Canfor in the amount of \$30.0 million, secured by a forest license located in British Columbia with 200,000 cubic meters of annual allowable cut. On February 12, 2016, Canfor exercised its option to convert the loan into an ownership interest in the forest license. Upon exercising of the option, the timber investment loan was derecognized and timber additions of \$30.6 million were recorded under Timber Licenses.

As part of the acquisition of Anthony Forest Products Company (Note 12), Canfor acquired a 50% interest in Anthony EACOM Inc., which owns an I-joist facility located in Sault St. Marie, Ontario. Canfor's investment in Anthony EACOM Inc. is classified as a joint venture and is accounted for using the equity method of accounting. For the three months ended September 30, 2016, the Company's share of the joint venture's sales was \$6.7 million and net income was \$0.8 million, and for the nine months ended September 30, 2016, the Company's share of the joint venture's sales was \$19.1 million and net income was \$3.0 million. At September 30, 2016, the carrying value of the equity investment is \$17.2 million (December 31, 2015 - \$16.2 million).

4. Operating Loans and Long-Term Debt

(a) Available Operating Loans

(millions of Canadian dollars, unaudited)	As at September 30, 2016	As at December 31, 2015
Canfor (excluding CPPI)		
Available Operating Loans:		
Operating loan facility	\$ 350.0	\$ 350.0
Facility for letters of credit	40.0	39.7
Total operating loan facility	390.0	389.7
Operating loan drawn	(96.0)	(158.0)
Letters of credit	(39.2)	(39.7)
Total available operating loan facility - Canfor	\$ 254.8	\$ 192.0
CPPI		
Available Operating Loans:		
Operating loan facility	\$ 110.0	\$ 110.0
Facility for letters of credit	-	20.0
Total operating loan facility	110.0	130.0
Letters of credit	(9.1)	(13.0)
Total available operating loan facility - CPPI	\$ 100.9	\$ 117.0
Consolidated:		
Total operating loan facilities	\$ 500.0	\$ 519.7
Total available operating loan facilities	\$ 355.7	\$ 309.0

In 2015, Canfor's principal operating loans, excluding CPPI, were extended to September 28, 2020 and certain financial covenants were removed. 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.

CPPI extended the maturity date on its operating loan facility to January 31, 2019 and also removed certain financial covenants in 2015. The terms of CPPI's operating loan facility also 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. In 2015, with the extension of both operating facilities, the financial covenants were modified to exclude minimum net worth covenants based on shareholders' equity.

Canfor (excluding CPPI) has a separate facility to cover letters of credit. At September 30, 2016, \$36.7 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.

CPPI had a separate facility to cover letters of credit, which expired on June 30, 2016 and was not extended. At September 30, 2016, \$9.1 million of letters of credit outstanding are covered under the general operating loan facility.

As at September 30, 2016, 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

At September 30, 2016, the fair value of the Company's long-term debt is \$447.4 million (December 31, 2015 - \$448.1 million). The fair value was determined based on prevailing market rates for long-term debt with similar characteristics and risk profile.

In 2015, the Company repaid \$175.0 million of its floating interest rate term debt and completed a new \$125.0 million floating interest rate term debt financing with the same syndicate of lenders with a maturity of September 28, 2020. The term debt financing was completed to rebalance the Company's debt levels prior to the completion of the US-dollar financings described below. Consistent with the Company's principal operating loan facility, interest is payable on the \$125.0 million term debt 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.

On October 2, 2015, the Company issued US\$100.0 million of senior unsecured notes, bearing interest at 4.4%. The notes mature in three tranches with US\$33.3 million due on each of October 2, 2023 and October 2, 2024 with the balance due on October 2, 2025.

On September 28, 2015, the Company entered into a new eight-year floating interest rate term loan for US\$100.0 million to further support its growth in the US. The debt is repayable on September 28, 2023 with interest payable 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 September 30, 2016, the Company and CPPI are in compliance with all covenants relating to their long-term debt.

5. Employee Future Benefits

For the three months ended September 30, 2016, defined benefit pension plan actuarial losses of \$2.0 million (before tax) were recognized in other comprehensive income (loss). The losses recorded in the third quarter of 2016 principally reflect a lower discount rate used to value the net defined benefit pension plan obligations offset by the return generated on plan assets. For the nine months ended September 30, 2016, losses of \$71.2 million (before tax) were recognized in other comprehensive income (loss). For the three and nine months ended September 30, 2015, the Company recognized before tax actuarial gains in other comprehensive income (loss) of \$13.3 million and \$31.2 million, respectively.

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 would decrease the accrued benefit obligation by an estimated \$102.7 million.

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

	Pension Benefit Plans	Other Benefit Plans
September 30, 2016	3.4%	3.4%
June 30, 2016	3.5%	3.5%
December 31, 2015	4.1%	4.1%
September 30, 2015	4.1%	4.1%
June 30, 2015	3.9%	3.9%
December 31, 2014	3.9%	3.9%

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 September 30, 2016 and December 31, 2015, 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 September 30, 2016	As at December 31, 2015
Financial assets measured at fair value			
Investments - held for trading	Level 1	\$ 14.5	\$ 17.2
Derivative financial instruments - held for trading	Level 2	0.6	-
Investments - available-for-sale	Level 3	3.8	-
Royalty receivable - available-for-sale	Level 3	-	0.2
		\$ 18.9	\$ 17.4
Financial liabilities measured at fair value			
Derivative financial instruments - held for trading	Level 2	\$ 1.0	\$ 4.8
		\$ 1.0	\$ 4.8

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 also invests in equity securities, which trade infrequently and have little price transparency. These Level 3 financial instruments are measured at fair value at each reporting period based on management's best estimates with any gains or losses recognized through other 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 September 30, 2016, the fair value of derivative financial instruments is a net liability of \$0.4 million (December 31, 2015 - net liability of \$4.8 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 nine-month periods ended September 30, 2016 and 2015:

(millions of Canadian dollars, unaudited)	3 months ended September 30,		9 months ended September 30,	
	2016	2015	2016	2015
Foreign exchange collars and forward contracts	\$ -	\$ (8.5)	\$ 0.1	\$ (20.9)
Energy derivatives	(0.3)	(5.4)	(0.9)	(5.0)
Lumber futures	0.4	(0.8)	1.6	(2.9)
Interest rate swaps	-	(0.2)	-	(1.4)
Gain (loss) on derivative financial instruments	\$ 0.1	\$ (14.9)	\$ 0.8	\$ (30.2)

7. Income Taxes

(millions of Canadian dollars, unaudited)	3 months ended September 30,		9 months ended September 30,	
	2016	2015	2016	2015
Current	\$ (14.9)	\$ (9.7)	\$ (35.1)	\$ (26.2)
Deferred	(8.2)	13.8	(12.1)	12.0
Income tax recovery (expense)	\$ (23.1)	\$ 4.1	\$ (47.2)	\$ (14.2)

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 September 30,		9 months ended September 30,	
	2016	2015	2016	2015
Income tax recovery (expense) at statutory rate 2016 – 26.0% (2015 – 26.0%)	\$ (23.3)	\$ 0.7	\$ (53.8)	\$ (22.5)
Add (deduct):				
Non-taxable income related to non-controlling interests	1.3	0.8	6.3	3.0
Entities with different income tax rates and other tax adjustments	(1.1)	2.7	(1.3)	4.8
Permanent difference from capital gains and other non-deductible items	-	(0.1)	1.6	0.5
Income tax recovery (expense)	\$ (23.1)	\$ 4.1	\$ (47.2)	\$ (14.2)

In addition to the amounts recorded to net income, a tax recovery of \$0.5 million was recorded to other comprehensive income (loss) for the three months ended September 30, 2016 (three months ended September 30, 2015 - tax expense of \$3.4 million) in relation to the actuarial gains (losses) on defined benefit employee compensation plans. For the nine months ended September 30, 2016, the tax recovery was \$18.5 million (nine months ended September 30, 2015 - tax expense of \$8.1 million).

Also included in other comprehensive income (loss) for the three months ended September 30, 2016 was a tax expense of \$0.3 million related to foreign exchange differences on translation of investments in foreign operations and change in fair value of available-for-sale financial instruments (three months ended September 30, 2015 - tax expense of \$2.7 million). For the nine months ended September 30, 2016, the tax recovery was \$2.0 million (nine months ended September 30, 2015 - tax expense of \$4.6 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 September 30,		9 months ended September 30,	
	2016	2015	2016	2015
Weighted average number of common shares	132,804,573	133,854,693	132,804,573	134,324,118

On March 7, 2016, 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, 2016. The renewed normal course issuer bid is set to expire on March 6, 2017. During the third quarter of 2016, Canfor did not purchase any common shares. As at October 26, 2016, there were 132,804,573 common shares of the Company outstanding.

Under a separate normal course issuer bid, CPPI can purchase for cancellation up to 3,446,139 common shares or approximately 5% of its issued and outstanding common shares as of March 1, 2016. CPPI did not purchase any common shares from non-controlling shareholders during the third quarter of 2016. At September 30 and October 26, 2016, Canfor's ownership interest in CPPI was 53.6%.

9. Net Change in Non-Cash Working Capital

(millions of Canadian dollars, unaudited)	3 months ended September 30,		9 months ended September 30,	
	2016	2015	2016	2015
Accounts receivable	\$ 0.9	\$ 21.4	\$ (2.4)	\$ (25.7)
Inventories	8.3	(9.1)	58.9	0.2
Prepaid expenses	(7.4)	9.7	(25.0)	(19.9)
Accounts payable, accrued liabilities and current portion of deferred reforestation obligations	0.3	(14.9)	41.4	37.6
Net decrease (increase) in non-cash working capital	\$ 2.1	\$ 7.1	\$ 72.9	\$ (7.8)

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 September 30, 2016					
Sales to external customers	\$ 809.6	291.6	-	-	\$ 1,101.2
Sales to other segments	\$ 33.8	-	-	(33.8)	\$ -
Operating income (loss)	\$ 75.1	31.0	(8.7)	-	\$ 97.4
Amortization	\$ 40.6	19.0	1.0	-	\$ 60.6
Capital expenditures¹	\$ 39.8	14.0	3.3	-	\$ 57.1
3 months ended September 30, 2015					
Sales to external customers	\$ 695.3	294.6	-	-	\$ 989.9
Sales to other segments	\$ 42.2	-	-	(42.2)	\$ -
Operating income (loss)	\$ (26.9)	42.3	(6.9)	-	\$ 8.5
Amortization	\$ 35.3	16.3	1.0	-	\$ 52.6
Capital expenditures ¹	\$ 42.8	14.6	3.7	-	\$ 61.1
9 months ended September 30, 2016					
Sales to external customers	\$ 2,347.5	843.9	-	-	\$ 3,191.4
Sales to other segments	\$ 114.8	0.2	-	(115.0)	\$ -
Operating income (loss)	\$ 180.0	75.3	(23.2)	-	\$ 232.1
Amortization	\$ 120.8	54.6	3.3	-	\$ 178.7
Capital expenditures¹	\$ 118.8	45.7	5.9	-	\$ 170.4
Identifiable assets	\$ 2,295.7	796.6	212.1	-	\$ 3,304.4
9 months ended September 30, 2015					
Sales to external customers	\$ 2,018.3	854.0	-	-	\$ 2,872.3
Sales to other segments	\$ 121.4	-	-	(121.4)	\$ -
Operating income (loss)	\$ 26.5	106.2	(22.9)	-	\$ 109.8
Amortization	\$ 103.0	47.8	3.3	-	\$ 154.1
Capital expenditures ¹	\$ 107.9	40.8	7.6	-	\$ 156.3
Identifiable assets	\$ 2,061.0	791.6	204.3	-	\$ 3,056.9

¹Capital 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 acquisitions of Scotch & Gulf Lumber, LLC, Beadles Lumber Company & Balfour Lumber Company Inc., Southern Lumber Company Inc. and Anthony Forest Products Company in 2015, and Wynndel Box and Lumber Ltd. in 2016 (Note 12).

11. 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. Settlement funds of \$16.3 million were paid to HPLP in the third quarter of 2016, all of which was accrued at June 30, 2016. 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 Operating Income net of Manufacturing and Product Costs in the second quarter of 2016. Canfor owns a 60% interest in HPLP.

12. Acquisitions

(a) US South

During 2015, Canfor acquired four forest product companies located in the Southern US. Below is a summary of the acquisitions and the consideration paid:

(millions of Canadian dollars, unaudited)

Company	Ownership as at September 30, 2016	Acquisition Date	Consideration Paid to Date
Scotch & Gulf Lumber, LLC	100%	January 30, 2015	\$ 131.5
Beadles Lumber Company & Balfour Lumber Company Inc.	55%	January 2, 2015	51.6
Southern Lumber Company Inc.	100%	April 1, 2015	65.6
Anthony Forest Products Company	100%	October 30, 2015	126.8
Total consideration paid to date			\$ 375.5

As a result of these acquisitions, Canfor acquired seven sawmills, two laminating facilities, two chip plants and one treating facility located in the US South, with facilities in Georgia, Alabama, Mississippi, Arkansas, Louisiana and Texas. In addition, Canfor acquired a 50% interest in an I-joist facility located in Ontario, Canada. The acquisitions of Scotch & Gulf Lumber, LLC ("Scotch Gulf") and Beadles Lumber Company & Balfour Lumber Company Inc. ("Beadles & Balfour") are phased acquisitions.

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

Beadles & Balfour will be 100% owned in January 2017. Canfor has recorded a forward purchase liability of \$40.8 million for the final step of the Beadles & Balfour phased acquisition. The Company calculated 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.

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

(b) Wynndel Box and Lumber Ltd.

On April 15, 2016, the Company completed the acquisition of the assets of Wynndel Box and Lumber Ltd. ("Wynndel") for \$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 early July. The remaining consideration of \$18.0 million will be paid in two installments. The first installment of \$14.4 million is scheduled to be paid on April 15, 2017 and is included in Accounts Payable and Accrued Liabilities, and the second installment of \$3.6 million is scheduled to be paid on October 15, 2017 and is recorded under Other Long-Term Liabilities. 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 65 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.

The following summarizes the consideration paid for Wynndel and preliminary amounts of assets acquired and liabilities assumed recognized at the acquisition date:

	As at April 15, 2016
<i>(millions of Canadian dollars, unaudited)</i>	
Total consideration	
Cash consideration paid	\$ 19.7
Consideration payable	20.6
Total consideration	\$ 40.3

	As at April 15, 2016
<i>(millions of Canadian dollars, unaudited)</i>	
Recognized amounts of identifiable assets acquired and liabilities assumed	
Land	\$ 1.1
Buildings, equipment and mobile	22.1
Timber	9.7
Non-cash working capital, net	8.7
Total net identifiable assets	\$ 41.6
Deferred tax liability, net	(1.3)
Total consideration	\$ 40.3

The Company incurred acquisition-related costs in 2015 and 2016 for the acquisition of Wynndel of \$1.3 million principally relating to external legal fees and due diligence costs, which have been included in Selling and Administration Costs. Wynndel's results are recorded in the lumber segment.