CANFOR CORPORATION

2017

QUARTER THREE

INTERIM REPORT

FOR THE THREE MONTHS ENDED SEPT 30, 2017

To our Shareholders

Canfor Corporation reported net income attributable to shareholders ("shareholder net income") of $66.2 million, or $0.51 per share, for the third quarter of 2017, compared to shareholder net income of $81.3 million, or $0.61 per share, for the second quarter of 2017 and net income attributable to shareholders of $50.9 million, or $0.38 per share, for the third quarter of 2016. For the nine months ended September 30, 2017, shareholder net income was $213.6 million, or $1.62 per share, compared to $112.9 million, or $0.85 per share, for the nine months ended September 30, 2016.

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

(millions of Canadian dollars, except per share amounts)	Q3 2017	Q2 2017	YTD 2017	Q3 2016	YTD 2016
Sales	**$ 1,165.2**	$ 1,185.2	**$ 3,476.6**	$ 1,101.2	$ 3,191.4
Operating income before amortization, as reported	**$ 166.9**	$ 193.1	**$ 529.1**	$ 158.0	$ 410.8
Operating income, as reported	**$ 105.4**	$ 131.0	**$ 343.2**	$ 97.4	$ 232.1
Adjusted operating income before amortization[1]	**$ 195.4**	$ 227.9	**$ 592.4**	$ 158.0	$ 395.3
Adjusted operating income[1]	**$ 133.9**	$ 165.8	**$ 406.5**	$ 97.4	$ 216.6
Net income[2]	**$ 66.2**	$ 81.3	**$ 213.6**	$ 50.9	$ 112.9
Net income per share, basic and diluted[2]	**$ 0.51**	$ 0.61	**$ 1.62**	$ 0.38	$ 0.85
Adjusted shareholder net income	**$ 84.3**	$ 104.2	**$ 247.8**	$ 51.7	$ 99.1
Adjusted shareholder net income per share, basic and diluted	**$ 0.65**	$ 0.78	**$ 1.88**	$ 0.39	$ 0.75

[1] Adjusted for a recovery of $3.2 million related to lower estimated Canal Flats closure costs recorded in the third quarter of 2017 following a sale of the land; countervailing and anti-dumping duty deposits of $31.7 million and $34.8 million expensed for accounting purposes in the third and second quarters of 2017, respectively; and a one-time gain of $15.5 million related to a legal settlement in the second quarter of 2016.

[2] Attributable to equity shareholders of the Company

The Company's adjusted shareholder net income for the third quarter of 2017 was $84.3 million, or $0.65 per share, compared to an adjusted shareholder net income of $104.2 million, or $0.78 per share, for the second quarter of 2017, and adjusted shareholder net income of $51.7 million, or $0.39 per share, for the third quarter of 2016. For the nine months ended September 30, 2017, the Company's adjusted shareholder net income was $247.8 million, or $1.88 per share, compared to $99.1 million, or $0.75 per share, for the nine months ended September 30, 2016.

The Company reported operating income of $105.4 million for the third quarter of 2017, down $25.6 million from reported operating income of $131.0 million for the second quarter of 2017, with the decline reflecting lower operating earnings in both the lumber and pulp and paper segments. Lumber segment results were impacted by a decline in Southern Yellow Pine ("SYP") lumber prices, a 5 cent, or 7%, stronger Canadian dollar, as well as increased log costs in Western Canada, the latter reflecting continued weather-related challenges and the effects of the worst fire season in recorded history in the BC Interior. These factors outweighed the benefits of higher US-dollar Western Spruce/Pine/Fir ("Western SPF") lumber prices, which showed solid gains as the quarter progressed, in part as a result of fire-related disruption to supply. For the pulp and paper segment, the stronger Canadian dollar more than offset the benefit of a quarter-over-quarter decline in scheduled maintenance outages, improved unit manufacturing costs, and increased energy revenues.

Reported results in the third quarter of 2017 include $31.7 million (Q2 2017: $34.8 million) related to the expensing of the preliminary countervailing duty ("CVD") and preliminary anti-dumping duty ("ADD") on exports from Canada to the United States. On August 26, 2017, the US Department of Commerce's preliminary CVD expired.

Lumber demand in North America remained relatively stable in the third quarter of 2017. Notwithstanding the impact of the recent hurricanes in the US South, US housing starts averaged 1,165,000 units on a seasonally adjusted basis, in line with the previous quarter, while the repair and remodeling sector saw seasonally stronger activity. Single-family starts, which consume a higher proportion of lumber, were up 3% from the previous quarter, while multi-family starts were down compared to the second quarter of 2017. In Canada, housing starts remained near historical highs, averaging 223,000 units on a seasonally adjusted basis. Offshore lumber demand from China, Japan and other regions remained strong through the third quarter, particularly for the Company's higher-value lumber products.

On a reported basis, Western SPF lumber unit sales realizations were in line with the second quarter of 2017 as higher average US-dollar Western SPF lumber prices and slightly lower duties expensed in the current quarter offset the impact of the strengthened Canadian dollar. The average benchmark North American Random Lengths Western SPF 2x4 #2&Btr price was up US$18 per Mfbm, or 5%, compared to the second quarter of 2017, with more pronounced increases seen across wider-width dimensions. In addition to solid underlying North American and offshore demand, the severe forest fire season in Western Canada contributed to a significant drop in Western SPF lumber shipments destined to the US from producers in British Columbia. These factors, combined with steady demand and relatively low field inventory, resulted in significant price gains.

SYP unit sales realizations were moderately lower than the prior quarter, reflecting a US$68 per Mfbm, or 14%, decline in the SYP East 2x4 #2 price, with similar declines seen in 2x8 and 2x12 dimensions. Prices for SYP East 2x6 and 2x10 #2 dimensions were in line with the previous quarter. Pricing for higher-value products remained strong, partly offsetting the impacts of lower average benchmark lumber prices. SYP lumber prices picked up towards the end of the quarter primarily reflecting lean inventories throughout the supply chain and increased demand following the recent hurricanes in the US South.

Total lumber shipments, at 1.37 billion board feet, were in line with the previous quarter. SYP shipments were modestly higher than the previous quarter, in part reflecting improved demand in September. Western SPF shipments decreased slightly compared to the second quarter of 2017, with the comparative period reflecting a release of inventory following the severe winter weather experienced at the start of 2017.

Total lumber production, at 1.31 billion board feet, was in line with the previous quarter. In the US South, higher productivity following several capital upgrades offset fewer operating hours as a result of weather-related disruptions and increased statutory holidays. In Western Canada, increased operating hours offset slightly lower productivity, largely reflecting weather and fire-related challenges. Lumber unit manufacturing costs in the third quarter of 2017 were in line with the previous quarter as the positive impact of seasonally lower energy costs in Western Canada and stable log costs in the US South offset higher purchased wood and log hauling costs in Western Canada, and to a lesser extent, increasing market-based stumpage.

Entering the third quarter of 2017, global softwood pulp markets showed signs of weakness; however, as the quarter progressed, demand and pricing rebounded, particularly China, in part due to China's new regulations restricting the import of recycled mix paper. The resulting positive price momentum will largely be realized in the fourth quarter of 2017, reflecting the timing of shipments (versus orders). As a result, average Northern Bleached Softwood Kraft ("NBSK") pulp US-dollar list prices to China were consistent quarter-over-quarter; however, NBSK pulp unit sales realizations experienced a moderate decrease due to the 7% stronger Canadian dollar. Bleached Chemi-Thermo Mechanical Pulp ("BCTMP") US-dollar list prices trended positively through the quarter, but were also negatively impacted by the stronger Canadian dollar.

Pulp shipments and production volumes were up 10% and 11%, respectively, from the previous quarter, principally reflecting a decline in scheduled maintenance outages. In the third quarter of 2017, Canfor Pulp Products Inc. ("CPPI") completed a scheduled maintenance outage at the Intercontinental NBSK pulp mill which reduced pulp production by approximately 10,000 tonnes. In the second quarter, a scheduled maintenance outage at CPPI's larger Northwood NBSK pulp mill resulted in approximately 33,000 tonnes of reduced production. Shipments for the third quarter of 2017 were also impacted by a 14,000 tonne vessel slippage into early October. Pulp unit manufacturing costs improved from the previous quarter, largely reflecting the lower quarter-over-quarter scheduled maintenance outages coupled with seasonally lower energy prices and usage.

On October 20, 2017, the Board of Directors approved, in principle, a $160 million (US$125 million) capital investment program focused on Canfor's US South sawmill operations to increase production capacity by approximately 350 million board feet by the end of 2019. These investments will be focused on enhancing the Company's high-value product offering by targeting a number of sawmill and planer modernization opportunities along with increased drying capacity. In addition, the Company is currently conducting a detailed viability study of a greenfield opportunity at one of several locations in the US South. The mill capacity currently being considered is 250 million board feet. The study is expected to be completed in the first quarter of 2018, with a final decision to follow thereafter.

Looking ahead, North American lumber prices are forecast to remain steady (and high by historical standards), while there is a risk of continued volatility as the US Department of Commerce investigations progress and final determinations are made. Demand in North America is anticipated to be solid through much of the fourth quarter of 2017, with seasonally slower activity in December. For the Company's key offshore lumber markets, demand is anticipated to remain solid through the fourth quarter of 2017 and into 2018.

For the month of October 2017, CPPI announced increases of US$105 per tonne and US$30 per tonne for NBSK pulp list prices to China and North America, respectively, reflecting a surge in demand, principally from China, as well as supply disruptions. Global pulp markets are anticipated to remain strong through the fourth quarter of 2017.

Conrad A. Pinette	**Don B. Kayne**
Chairman	**President and Chief Executive Officer**

Canfor Corporation
Third Quarter 2017
Management's Discussion and Analysis

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

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

Factors that could impact future operations are also discussed. These factors may be influenced by both known and unknown risks and uncertainties that could cause the actual results to be materially different from those stated in this discussion. Factors that could have a material impact on any future oriented statements made herein include, but are not limited to: general economic, market and business conditions; product selling prices; raw material and operating costs; currency exchange rates; interest rates; changes in law and public policy; the outcome of labour and trade disputes; and opportunities available to or pursued by Canfor.

All financial references are in millions of Canadian dollars unless otherwise noted. The information in this report is as at October 20, 2017.

Forward Looking Statements

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

THIRD QUARTER 2017 OVERVIEW

Selected Financial Information and Statistics

(millions of Canadian dollars, except per share amounts)	Q3 2017	Q2 2017	YTD 2017	Q3 2016	YTD 2016
Operating income (loss) by segment:					
Lumber	**$ 92.9**	$ 110.4	**$ 287.0**	$ 75.1	$ 180.0
Pulp and Paper	**$ 21.1**	$ 31.5	**$ 87.8**	$ 31.0	$ 75.3
Unallocated and Other[1]	**$ (8.6)**	$ (10.9)	**$ (31.6)**	$ (8.7)	$ (23.2)
Total operating income	**$ 105.4**	$ 131.0	**$ 343.2**	$ 97.4	$ 232.1
Add: Amortization[2]	**$ 61.5**	$ 62.1	**$ 185.9**	$ 60.6	$ 178.7
Total operating income before amortization	**$ 166.9**	$ 193.1	**$ 529.1**	$ 158.0	$ 410.8
Add (deduct):					
Working capital movements	**$ 4.7**	$ 92.3	**$ (8.2)**	$ 2.1	$ 72.9
Defined benefit plan contributions, net	**$ (5.8)**	$ (6.6)	**$ (18.4)**	$ (15.2)	$ (25.6)
Income taxes paid, net	**$ (21.6)**	$ (19.3)	**$ (39.7)**	$ (13.5)	$ (30.1)
Cash received from legal settlement	**$ -**	-	**$ -**	$ 16.3	$ 16.3
Gain on sale of Anthony EACOM Inc.[3]	**$ -**	$ -	**$ (4.0)**	$ -	$ -
Gain on legal settlement, net[4]	**$ -**	$ -	**$ -**	$ -	$ (15.5)
Other operating cash flows, net[5]	**$ (17.1)**	$ (5.9)	**$ (5.3)**	$ 0.9	$ (6.0)
Cash from operating activities	**$ 127.1**	$ 253.6	**$ 453.5**	$ 148.6	$ 422.8
Add (deduct):					
Finance expenses paid	**$ (4.8)**	$ (6.4)	**$ (14.4)**	$ (3.5)	$ (14.5)
Distributions paid to non-controlling interests	**$ (2.2)**	$ (2.2)	**$ (8.2)**	$ (11.6)	$ (23.1)
Capital additions, net	**$ (57.5)**	$ (61.7)	**$ (158.1)**	$ (57.1)	$ (170.4)
Proceeds received from sale of Anthony EACOM Inc. [3]	**$ 1.4**	$ 1.2	**$ 8.0**	$ -	$ -
Repayment of long-term debt	**$ (0.1)**	$ (0.1)	**$ (0.2)**	$ -	$ -
Share purchases	**$ (75.0)**	$ -	**$ (75.0)**	$ -	$ -
Proceeds received from sale of Lakeland Winton[6]	**$ -**	$ 15.0	**$ 15.0**	$ -	$ -
Acquisitions	**$ -**	$ (14.4)	**$ (56.2)**	$ (64.2)	$ (83.9)
Proceeds from long-term debt	**$ -**	$ -	**$ 1.7**	$ -	$ -
Advances to Licella	**$ -**	$ -	**$ -**	$ -	$ (3.5)
Foreign exchange gain (loss) on cash and cash equivalents	**$ (2.5)**	$ (2.0)	**$ (4.6)**	$ 0.7	$ (3.5)
Other, net	**$ (10.5)**	$ (4.3)	**$ (11.3)**	$ 4.4	$ (17.6)
Change in cash / operating loans	**$ (24.1)**	$ 178.7	**$ 150.2**	$ 17.3	$ 106.3
ROIC – Consolidated period-to-date[7]	**4.0%**	4.8%	**12.9%**	3.3%	6.9%
Average exchange rate (US$ per C$1.00)[8]	**$ 0.798**	$ 0.744	**$ 0.765**	$ 0.766	$ 0.756

[1] Increase in YTD 2017 Unallocated and Other largely attributable to higher legal costs related to the expiry of the Softwood Lumber Agreement.

[2] Amortization includes amortization of certain capitalized major maintenance costs.

[3] On March 31, 2017, Canfor sold its 50% interest in Anthony EACOM Inc. for net proceeds of $21.4 million and recognized a $4.0 million gain. A total of $8.0 million in proceeds has been received to date in 2017.

[4] Gain relates to a $16.3 million settlement of a claim with respect to logistics services, net of a $0.8 million impairment of related machinery and equipment.

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

[6] On July 1, 2015 Canfor sold its 33.3% interest in Lakeland Mills Ltd. and Winton Global Lumber Ltd for consideration of $30.0 million. The first installment of $15.0 million was received on July 1, 2015, and the second installment for $15.0 million was received in the second quarter of 2017.

[7] Consolidated Return on Invested Capital ("ROIC") is equal to operating income/loss plus realized gains/losses on derivatives, equity income/loss from joint venture and other income/expense, all net of minority interest, divided by the average invested capital during the period. Invested capital is equal to capital assets, plus long-term investments and net non-cash working capital, all excluding minority interest components.

[8] Source – Bank of Canada (monthly average rate for the period).

Analysis of Specific Material Items Affecting Comparability of Shareholder Net Income

After-tax impact, net of non-controlling interests (millions of Canadian dollars, except per share amounts)	Q3 2017	Q2 2017	YTD 2017	Q3 2016	YTD 2016
Shareholder net income, as reported	**$ 66.2**	$ 81.3	**$ 213.6**	$ 50.9	$ 112.9
Foreign exchange (gain) loss on long-term debt	**$ (4.4)**	$ (2.9)	**$ (8.3)**	$ 0.9	$ (6.3)
Countervailing and anti-dumping duty deposits	**$ 23.5**	$ 25.8	**$ 49.3**	$ -	$ -
Mill closure provision recovery	**$ (2.4)**	$ -	**$ (2.4)**	$ -	$ -
(Gain) loss on derivative financial instruments	**$ 1.4**	$ -	**$ (1.0)**	$ (0.1)	$ (0.6)
Gain on sale of Anthony EACOM Inc.	**$ -**	$ -	**$ (3.4)**	$ -	$ -
Gain on legal settlement, net	**$ -**	$ -	**$ -**	$ -	$ (6.9)
Net impact of above items	**$ 18.1**	$ 22.9	**$ 34.2**	$ 0.8	$ (13.8)
Adjusted shareholder net income	**$ 84.3**	$ 104.2	**$ 247.8**	$ 51.7	$ 99.1
Shareholder net income per share (EPS), as reported	**$ 0.51**	$ 0.61	**$ 1.62**	$ 0.38	$ 0.85
Net impact of above items per share	**$ 0.14**	$ 0.17	**$ 0.26**	$ 0.01	$ (0.10)
Adjusted shareholder net income per share	**$ 0.65**	$ 0.78	**$ 1.88**	$ 0.39	$ 0.75

The Company reported operating income of $105.4 million for the third quarter of 2017, down $25.6 million from reported operating income of $131.0 million for the second quarter of 2017 with the decline reflecting lower operating earnings in both the lumber and pulp and paper segments. Lumber segment results were impacted by a decline in Southern Yellow Pine ("SYP") lumber prices, a 5 cent, or 7% stronger Canadian dollar, as well as increased log costs in Western Canada, the latter reflecting continued weather-related challenges and the effects of the worst fire season in recorded history in the BC Interior. These factors outweighed the benefits of higher US-dollar Western Spruce/Pine/Fir ("Western SPF") lumber prices, which showed solid gains as the quarter progressed, in part as a result of the fire-related disruption to supply. For the pulp and paper segment, the stronger Canadian dollar more than offset the benefit of a quarter-over-quarter decline in scheduled maintenance outages, improved unit manufacturing costs, and increased energy revenues.

Reported results in the third quarter of 2017 include $31.7 million (Q2: $34.8 million) related to the expensing of the preliminary countervailing duty ("CVD") and preliminary anti-dumping duty ("ADD") on exports from Canada to the United States. On August 26, 2017 the US Department of Commerce's preliminary CVD expired.

The current quarter's adjusted operating income was up $36.5 million from $97.4 million for the third quarter of 2016, reflecting a $46.3 million increase in lumber segment earnings and a $9.9 million decrease in earnings for the pulp and paper segment. The increase in lumber segment earnings primarily reflected higher Western SPF lumber unit sales realizations with significantly higher US-dollar benchmark lumber prices more than offsetting a 3 cent, or 4%, strengthening of the Canadian dollar, modestly lower SYP lumber unit sales realizations and market driven increases in log costs in Western Canada in the current period. In the pulp and paper segment, improvements in average Northern Bleached Softwood Kraft ("NBSK") pulp and Bleached Chemi-Thermo Mechanical Pulp ("BCTMP") unit sales realizations were more than offset by lower shipments and a moderate increase in pulp unit manufacturing costs, largely attributable to higher market-based fibre costs.

OPERATING RESULTS BY BUSINESS SEGMENT

Lumber

Selected Financial Information and Statistics – Lumber

(millions of Canadian dollars, unless otherwise noted)	Q3 2017	Q2 2017	YTD 2017	Q3 2016	YTD 2016
Sales	**$ 880.4**	$ 904.3	**$ 2,601.8**	$ 809.6	$ 2,347.5
Operating income before amortization, as reported	**$ 136.1**	$ 154.0	**$ 417.3**	$ 115.7	$ 300.8
Operating income, as reported	**$ 92.9**	$ 110.4	**$ 287.0**	$ 75.1	$ 180.0
Countervailing and anti-dumping duty deposits[9]	**$ 31.7**	$ 34.8	**$ 66.5**	$ -	$ -
Mill closure provision recovery[10]	**$ (3.2)**	$ -	**$ (3.2)**	$ -	$ -
Gain on legal settlement, net[11]	**$ -**	$ -	**$ -**	$ -	$ (15.5)
Adjusted operating income	**$ 121.4**	$ 145.2	**$ 350.3**	$ 75.1	$ 164.5
Average SPF 2x4 #2&Btr lumber price in US$[12]	**$ 406**	$ 388	**$ 381**	$ 322	$ 302
Average SPF price in Cdn$[12]	**$ 509**	$ 521	**$ 498**	$ 420	$ 399
Average SYP 2x4 #2 lumber price in US$[13]	**$ 408**	$ 476	**$ 455**	$ 414	$ 419
U.S. housing starts (thousand units SAAR)[14]	**1,165**	1,167	**1,190**	1,138	1,150
Production – SPF lumber (MMfbm)[15]	**952.9**	951.5	**2,840.8**	953.0	2,874.6
Production – SYP lumber (MMfbm)[15]	**355.4**	358.3	**1,075.5**	341.2	1,011.7
Shipments – SPF lumber (MMfbm)[16]	**993.6**	1,002.0	**2,920.6**	990.4	2,992.3
Shipments – SYP lumber (MMfbm)[16]	**373.0**	353.3	**1,072.2**	348.1	1,045.3

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

Markets

Lumber demand in North America remained relatively stable in the third quarter of 2017. Notwithstanding the impact of the recent hurricanes in the US South, US housing starts averaged 1,165,000 units on a seasonally adjusted basis, in line with the previous quarter, while the repair and remodeling sector saw seasonally stronger activity. Single-family starts, which consume a higher proportion of lumber, were up 3% from the previous quarter, while multi-family starts were down compared to the second quarter of 2017. In Canada, housing starts remained near historical highs, averaging 223,000 units on a seasonally adjusted basis. Offshore lumber demand from China, Japan and other regions remained strong through the third quarter, particularly for the Company's higher-value lumber products.

Sales

Sales for the lumber segment for the third quarter of 2017 were $880.4 million, compared to $904.3 million in the previous quarter and $809.6 million for the third quarter of 2016. The 3% decrease in sales revenue compared to the prior quarter largely reflected lower SYP unit sales realizations, while the 9% increase in sales revenue compared to the third quarter of 2016 primarily reflected higher Western SPF unit sales realizations.

Total lumber shipments, at 1.37 billion board feet, were in line with the previous quarter. SYP shipments were modestly higher than the previous quarter, reflecting, in part, improved demand towards the end of the quarter. Western SPF shipments decreased slightly, reflecting a drawdown of inventory in the previous quarter following the severe winter weather experienced at the beginning of 2017. Total lumber shipments were slightly above the third quarter of 2016 principally reflecting improved productivity in the US South following several capital projects in that region.

On a reported basis, Western SPF lumber unit sales realizations were in line with the second quarter of 2017 as higher average Western SPF lumber prices and slightly lower duties expensed in the current quarter offset the impact of the strengthened Canadian dollar. The average benchmark North American Random Lengths Western SPF 2x4 #2&Btr price was up US$18 per Mfbm, or 5%, compared to the second quarter of 2017, with more pronounced increases seen across wider-width dimensions. In addition to solid underlying North American and offshore demand, the severe forest fire season in Western Canada contributed to a significant drop in Western SPF lumber shipments destined to the US from producers in British Columbia. These factors, combined with steady demand and relatively low field inventory, resulted in significant price gains.

SYP unit sales realizations were moderately lower than the prior quarter, reflecting a US$68 per Mfbm, or 14%, decline in the SYP East 2x4 #2 price, with similar declines seen in 2x8 and 2x12 dimensions. Prices for SYP East 2x6 and 2x10 #2 dimensions were in line with the previous quarter. Pricing for higher-value products remained strong, partly offsetting the impacts of lower average benchmark lumber prices. SYP lumber prices picked up towards the end of the quarter primarily reflecting lean inventories throughout the supply chain and increased demand following the recent hurricanes in the US South.

Compared to the third quarter of 2016, Western SPF lumber unit sales realizations were up significantly as higher US-dollar benchmark lumber prices more than offset the impact of the aforementioned duties in the current quarter and the 4% stronger Canadian dollar. The average North American Random Lengths Western SPF 2x4 #2&Btr price was up US$84 per Mfbm, or 26%, with similar increases seen across wider-width dimensions. SYP lumber unit sales realizations were down modestly compared to the third quarter of 2016 as a higher-value sales mix helped to offset lower benchmark prices, particularly across wider-width dimensions.

Total residual revenue in the current quarter was in line with the prior quarter and slightly higher than the third quarter of 2016 as increased pricing for sawmill residual chips in Western Canada more than offset lower residual chip prices in the US South. Current quarter results also reflected seasonally higher log sales compared to the previous quarter due to increased timber harvesting following the spring break-up period in Western Canada. Log sales were in line with the third quarter of 2016. Pellet sales revenues in the current quarter were higher than both comparative quarters largely as a result of improved productivity rates.

Operations

Total lumber production in the third quarter of 2017, at 1.31 billion board feet, was in line with the previous quarter. In the US South, higher productivity following several capital upgrades more than offset weather-related disruptions and increased statutory holidays. In Western Canada, production was largely unchanged despite the fire-related disruptions to log procurement efforts and operations.

Lumber unit manufacturing costs in the third quarter of 2017 were in line with the previous quarter as seasonally lower energy costs in Western Canada, stable log costs in the US South and the stronger Canadian dollar offset higher purchased wood and log hauling costs in Western Canada, and to a lesser extent, increasing market-based stumpage. Compared to the third quarter of 2016, unit manufacturing costs were modestly higher primarily reflecting market-based increases in purchased wood costs and stumpage in Western Canada.

Pulp and Paper

Selected Financial Information and Statistics – Pulp and Paper[17]

(millions of Canadian dollars, unless otherwise noted)	**Q3 2017**	Q2 2017	**YTD 2017**	Q3 2016	YTD 2016
Sales	**$ 284.8**	$ 280.9	**$ 874.8**	$ 291.6	$ 843.9
Operating income before amortization[18]	**$ 39.4**	$ 50.0	**$ 143.4**	$ 50.0	$ 129.9
Operating income	**$ 21.1**	$ 31.5	**$ 87.8**	$ 31.0	$ 75.3
Average NBSK pulp price delivered to China – US$[19]	**$ 670**	$ 670	**$ 662**	$ 595	$ 601
Average NBSK pulp price delivered to China – Cdn$[19]	**$ 839**	$ 901	**$ 865**	$ 777	$ 795
Production – pulp (000 mt)	**305.1**	275.2	**897.4**	312.5	913.9
Production – paper (000 mt)	**34.8**	33.6	**103.0**	32.4	99.8
Shipments – pulp (000 mt)	**303.3**	276.3	**916.7**	319.8	926.1
Shipments – paper (000 mt)	**34.0**	35.5	**103.2**	35.5	108.9

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

Markets

Global softwood pulp markets weakened slightly in July primarily following the end of spring maintenance season. By the end of August and through September, however, demand had rebounded, particularly in China, in part due to China's new regulations restricting the import of recycled mixed paper. The resulting positive price momentum will largely be realized in the fourth quarter of 2017, reflecting the timing of shipments (versus orders).

Global shipments of bleached softwood pulp increased by 3.1% for the first eight months of 2017 when compared to the first eight months of 2016, driven primarily by increased year-to-date shipments to North America and Asian countries, including China[20].

Global kraft paper markets were healthy through the third quarter of 2017. The positive pricing momentum and demand from North American markets experienced in the first half of 2017 continued through the current quarter, while certain offshore markets, particularly Asia, saw increasing demand as a result of a tightening of supply.

Sales

Total pulp shipments for the third quarter of 2017 were 303,300 tonnes, up 27,000 tonnes, or 10%, from the previous quarter and down 16,500 tonnes, or 5%, from the third quarter of 2016. When compared to the previous quarter, the increase in pulp shipments was primarily due to increased pulp production in the current quarter combined with an increase in shipments to North America and Asia, offset in part by the slippage of a 14,000 tonne vessel shipment to Asia into October 2017. The reduction in pulp shipments when compared to the third quarter of 2016 for the most part reflected the delayed vessel shipment, and to a lesser extent, lower pulp production in the current quarter.

The average China US-dollar NBSK pulp list price (as published by RISI), at US$670 per tonne, was in line with the second quarter of 2017. The weakening of the global pulp markets and US-dollar pricing in the early part of the current quarter, combined with the unfavourable impact of the stronger Canadian dollar, more than offset the improved prices later in the quarter, leading to a moderate decrease in average NBSK pulp unit sales realizations compared to the previous quarter. Average BCTMP unit sales realizations also experienced a moderate decline when compared to the second quarter of 2017, largely as a result of the stronger Canadian dollar.

Compared to the third quarter of 2016, the average China US-dollar NBSK pulp list price in the current quarter was up US$75 per tonne, or 13%. Average NBSK pulp unit sales realizations were only slightly higher than the third quarter of 2016, however, as higher market list prices were largely offset by the 4% stronger Canadian dollar combined with the impact of timing of shipments (versus orders) and increases in customer discounts. BCTMP unit sales realizations were notably higher compared to the third quarter of 2016, reflecting the significant strength in BCTMP market demand year-over-year, which more than offset the stronger Canadian dollar.

Compared to the previous quarter, energy revenues in the third quarter of 2017 returned to more normalized levels, reflecting an increase in turbine operating days quarter-over-quarter (related to less scheduled maintenance outages), combined with higher energy prices in the current quarter. Energy revenues in the current quarter were marginally lower when compared to the third quarter of 2016, primarily a result of lower power generation, due to the larger scheduled outage at CPPI's NBSK pulp mills in the current quarter.

Total paper shipments in the third quarter of 2017 at 34,000 tonnes, were down 1,500 tonnes when compared to both the previous quarter and the same quarter in 2016. The reduction in paper shipments from the second quarter of 2017 largely reflected a decline in shipments into the North American market, as the previous quarter experienced higher-than-normal shipments into this market. The decrease in paper shipments from the third quarter of 2016 was principally the result of a drawdown of inventory in the third quarter of 2016.

Paper unit sales realizations in the third quarter of 2017 saw a modest decrease when compared to the previous quarter as higher market-driven US-dollar pricing was more than offset by the stronger Canadian dollar and a lower proportion of shipments to the North American market. Compared to the same quarter of 2016, paper unit sales realizations experienced a slight decline, as a 4% stronger Canadian dollar offset more favorable pricing, particularly in North America.

[20] As reported by PPPC statistics.

Operations

Pulp production in the third quarter of 2017 at 305,100 tonnes was up 29,900 tonnes, or 11%, from the second quarter of 2017 and down 7,400 tonnes, or 2%, from the third quarter of 2016. Pulp production in the current quarter primarily increased as a result of a decline in scheduled maintenance outages quarter-over-quarter. During the third quarter of 2017, CPPI completed a scheduled maintenance outage at the Intercontinental NBSK pulp mill, which reduced pulp production by approximately 10,000 tonnes. This compared to the second quarter of 2017, which included scheduled maintenance outages at the Northwood NBSK pulp mill as well as at the Taylor BCTMP mill, which when combined with other operational upsets, reduced pulp production by approximately 40,000 tonnes.

When compared to the third quarter of 2016, pulp production decreased primarily due to the larger scheduled maintenance outage in the current quarter, and lower operating rates. In the third quarter of 2016, CPPI completed scheduled maintenance outages at the Prince George NBSK pulp mill and the Taylor BCTMP mill, reducing pulp production by 3,700 tonnes of NBSK pulp and 3,100 tonnes of BCTMP, respectively.

Pulp unit manufacturing costs saw a modest decrease from the previous quarter, largely reflecting the quarter-over-quarter impacts of the aforementioned scheduled maintenance outages coupled with seasonally lower energy prices and usage in the current quarter, offsetting a slight increase in fibre costs. Higher fibre costs principally reflected a larger proportion of higher-cost whole log chips, mitigated slightly by a decline in prices for sawmill residual chips in the current quarter.

Compared to the third quarter of 2016, pulp unit manufacturing costs moderately increased, principally due to higher fibre costs and to a lesser extent, higher chemical pricing, marginally offset by the timing of certain maintenance spend. Increased fibre costs in the current period largely reflected the higher market prices for sawmill residual chips combined with a larger proportion of higher-cost whole log chips.

Paper production for the third quarter of 2017 was 34,800 tonnes, up 1,200 tonnes from the second quarter of 2017 and up 2,400 tonnes when compared to the same quarter of 2016. Compared to the previous quarter, the higher paper production primarily reflected stronger operating rates in the current quarter. The increase in paper production from the third quarter of 2016 was largely due to a nine-day scheduled maintenance outage in the comparative period. No maintenance outages occurred in the current quarter or in the second quarter of 2017.

Paper unit manufacturing costs moderately decreased when compared to the second quarter of 2017, mostly due to lower slush pulp costs, principally reflecting lower average NBSK sales realizations, combined with decreases in maintenance spend in the current quarter. Paper unit manufacturing costs were substantially in line with the third quarter of 2016, as the impact of the scheduled maintenance outage in the comparative period was offset by higher slush pulp costs, driven by higher average NBSK sales realizations, in the current quarter.

Unallocated and Other Items

Selected Financial Information

(millions of Canadian dollars)	**Q3 2017**	Q2 2017	**YTD 2017**	Q3 2016	YTD 2016
Operating loss of Panels operations[21]	**$ (0.4)**	$ (0.5)	**$ (1.6)**	$ (0.4)	$ (1.4)
Corporate costs	**$ (8.2)**	$ (10.4)	**$ (30.0)**	$ (8.3)	$ (21.8)
Finance expense, net	**$ (8.1)**	$ (7.8)	**$ (23.9)**	$ (8.2)	$ (24.8)
Foreign exchange gain (loss) on long-term debt	**$ 5.0**	$ 3.4	**$ 9.5**	$ (1.1)	$ 7.2
Gain (loss) on derivative financial instruments	**$ (1.9)**	$ -	**$ 1.3**	$ 0.1	$ 0.8
Other income (expense), net	**$ (4.3)**	$ (3.2)	**$ (5.3)**	$ 1.3	$ (8.4)

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

Corporate costs were $8.2 million for the third quarter of 2017, $2.2 million lower than the previous quarter principally reflecting higher legal costs related to the expiry of the Softwood Lumber Agreement recorded in the second quarter of 2017. Corporate costs were in line with the third quarter of 2016.

Net finance expense at $8.1 million for the third quarter of 2017 was up slightly from the previous quarter and in line with the third quarter of 2016. In the third quarter of 2017, the Company recognized a foreign exchange gain on its US-dollar term debt held by Canadian entities due to the stronger Canadian dollar at the end of the quarter as compared to the end of June (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 2017, the Company recorded a net loss of $1.9 million related to its derivative instruments, principally reflecting unrealized losses on lumber future contracts. In the third quarter of 2016, the Company recorded a net gain of $0.1 million related to its derivatives instruments.

Other expense, net, of $4.3 million in the third quarter of 2017 compared to a net expense of $3.2 million in the second quarter of 2017, primarily reflecting 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 2017**	Q2 2017	**YTD 2017**	Q3 2016	YTD 2016
Foreign exchange translation differences for foreign operations, net of tax	**$ (19.9)**	$ (13.3)	**$ (36.4)**	$ 3.8	$ (21.5)
Defined benefit actuarial gains (losses), net of tax	**$ 13.0**	$ (26.0)	**$ (10.6)**	$ (1.5)	$ (52.7)
Change in fair value of available-for-sale financial assets, net of tax	**$ -**	$ -	**$ -**	$ 0.2	$ 0.2
Other comprehensive income (loss), net of tax	**$ (6.9)**	$ (39.3)	**$ (47.0)**	$ 2.5	$ (74.0)

In the third quarter of 2017, the Company recorded an after-tax gain of $13.0 million in relation to changes in the valuation of the Company's employee future benefit plans. The gain in the current quarter principally reflected a 0.3% increase in the discount rate used to value the employee future benefit plans partially offset by a return on plan assets lower than the discount rate. This compared to an after-tax loss of $26.0 million in the previous quarter and an after-tax loss of $1.5 million in the third quarter of 2016, with the losses in both cases largely reflecting lower discount rates.

In addition, the Company recorded an accounting loss of $19.9 million in the third quarter of 2017 related to foreign exchange differences for foreign operations due to the strengthening of the Canadian dollar relative to the US-dollar at the end of the quarter. This compared to a loss of $13.3 million in the previous quarter and a gain of $3.8 million in the third quarter of 2016.

SUMMARY OF FINANCIAL POSITION

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

(millions of Canadian dollars, except for ratios)	**Q3 2017**	Q2 2017	**YTD 2017**	Q3 2016	YTD 2016
Increase in cash and cash equivalents[22]	**$ 21.6**	$ 140.7	**$ 126.8**	$ (16.4)	$ 47.8
Operating activities	**$ 127.1**	$ 253.6	**$ 453.5**	$ 148.6	$ 422.8
Financing activities	**$ (89.6)**	$ (56.1)	**$ (141.8)**	$ (48.4)	$ (124.3)
Investing activities	**$ (59.1)**	$ (56.8)	**$ (184.9)**	$ (116.6)	$ (250.7)
Ratio of current assets to current liabilities			**2.3:1**		1.7:1
Net debt to capitalization			**7.6%**		19.1%

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

Changes in Financial Position

Cash generated from operating activities was $127.1 million in the third quarter of 2017, compared to $253.6 million in the previous quarter and $148.6 million in the third quarter of 2016. 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 2017, and to a lesser extent, lower cash earnings in the current quarter. Compared to the third quarter of 2016, the decrease in operating cash flows was primarily attributable to increased income tax installment payments in the current quarter as well as cash received from a legal settlement in the comparative period, offset in part by higher cash earnings in the current quarter.

Cash used in financing activities was $89.6 million in the current quarter, compared to cash used of $56.1 million in the previous quarter and cash used of $48.4 million in the same quarter of 2016. During the current quarter, the Company made cash distributions of $2.2 million to non-controlling shareholders, in line with the previous quarter, and down $9.4 million from the same quarter in 2016, largely reflecting completion of the Company's two phased acquisitions in the US South. In the third quarter of 2017, Canfor purchased 3,526,387 common shares under its Normal Course Issuer Bid for $75.0 million, while CPPI purchased 568,425 common shares under its Normal Course Issuer Bid for $7.2 million (see "Liquidity and Financial Requirements" section for more details). The Company had no balance outstanding on its Canadian operating loan facility at the end of the third quarter of 2017, similar to the prior quarter, and down $96.0 million from the end of the third quarter of 2016.

Cash used for investing activities was $59.1 million in the current quarter, compared to $56.8 million in the previous quarter and $116.6 million in the same quarter of 2016. Capital additions were $57.5 million, down $4.2 million from the previous quarter and in line with the third quarter of 2016. Current quarter capital expenditures included various smaller high-returning capital projects aimed at increasing drying capacity and productivity, with an increasing proportion of capital deployed in the US South, including upgrades at the Company's sawmills in Arkansas and Georgia. In the pulp and paper segment, capital expenditures primarily related to maintenance-of-business capital associated with the Intercontinental NBSK pulp mill's scheduled maintenance outage during the quarter as well as capital expenditures associated with the previously announced energy projects. Investing activities in the second quarter of 2017 also included final proceeds of $15.0 million related to the July 1, 2015 sale of the Company's investment in Lakeland Mills Ltd. and Winton Global Lumber Ltd., and a $14.4 million payment related to the Company's April 2016 acquisition of Wynndel Box and Lumber Ltd. Investing activities in the third quarter of 2016 include a $61.6 million payment related to the Company's phased acquisition of Scotch & Gulf Lumber, LLC.

Liquidity and Financial Requirements

At September 30, 2017, the Company on a consolidated basis had cash of $278.8 million, no amounts drawn on its operating loans, and an additional $50.7 million reserved for several standby letters of credit. At period end the Company had total available undrawn operating loans of $459.3 million.

Excluding CPPI, the Company's bank operating loans at September 30, 2017 totaled $350.0 million, of which no amounts were drawn, and an additional $41.7 million reserved for several standby letters of credit, the majority of which related to unregistered pension plans. During the third quarter of 2017, the Company's principal operating loans, excluding CPPI, were extended to September 28, 2022. Interest is payable on these loans at floating rates based on the lenders' Canadian prime rate, bankers acceptances, US-dollar base rate or US-dollar LIBOR rate, plus a margin that varies with the Company's debt to total capitalization ratio.

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

The Company has $429.9 million of fixed and floating interest rate term debt. The Company's consolidated net debt to total capitalization at the end the third quarter of 2017 was 7.6%. For Canfor, excluding CPPI, net debt to capitalization at the end of the third quarter of 2017 was 10.2%.

On March 7, 2017, the Company renewed its normal course issuer bid whereby it can purchase for cancellation up to 6,640,227 common shares or approximately 5% of its issued and outstanding common shares as of March 1, 2017. The renewed normal course issuer bid is set to expire on March 6, 2018. During the third quarter of 2017 the Company purchased 3,526,387 common shares for $75.0 million (an average of $21.27 per common share). As at October 20, 2017, there were 129,278,136 common shares of the Company outstanding. Under a separate normal course issuer bid, CPPI purchased 568,425 common shares in the third quarter of 2017 for $7.2 million (an average of $12.67 per common share).

As a result of CPPI's share repurchases in the current quarter, Canfor's ownership interest in CPPI increased to 54.8% at September 30, 2017, up 0.4% from the end of the prior quarter.

Canfor and CPPI may purchase more shares through the balance of 2017 subject to the terms of their normal course issuer bids.

Licella Pulp Joint Venture

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

OUTLOOK

Lumber

Looking ahead, North American lumber prices are forecast to remain steady (and high by historical standards), while there is a risk of continued volatility as the US Department of Commerce investigations progress and final determinations are made. Demand in North America is anticipated to be solid through much of the fourth quarter of 2017, with seasonally slower activity in December.

For the Company's key offshore lumber markets, demand is anticipated to remain solid through the fourth quarter of 2017 and into 2018.

Pulp and Paper

For the month of October 2017, CPPI announced increases of US$105 per tonne and US$30 per tonne for NBSK pulp list prices to China and North America, respectively, reflecting a surge in demand, principally from China, as well as supply disruptions. Global pulp markets are currently anticipated to remain strong in the fourth quarter of 2017.

OUTSTANDING SHARES

At October 20, 2017, there were 129,278,136 common shares of the Company outstanding.

CRITICAL ACCOUNTING ESTIMATES

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

ACCOUNTING STANDARDS ISSUED AND NOT APPLIED

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

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

In January 2016, the IASB issued IFRS 16, *Leases*, which will supersede IAS 17, *Leases* and related interpretations. The required adoption date for IFRS 16 is January 1, 2019 and the Company is in the process of assessing the impact on the financial statements of this new standard.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

RISKS AND UNCERTAINTIES

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

In addition to exposure to changes in product prices and foreign exchange, the Company's financial results are impacted by seasonal factors such as weather and building activity. Adverse weather conditions can cause logging curtailments, which can affect the supply of raw materials to sawmills and pulp mills. Market demand also varies seasonally to some degree. For example, building activity and repair and renovation work, which affects demand for lumber products, is generally stronger in the spring and summer months. Shipment volumes are affected by these factors as well as by global supply and demand conditions. Net income is also impacted by fluctuations in Canadian dollar exchange rates, the revaluation to the period end rate of US-dollar denominated working capital balances, US-dollar denominated debt and revaluation of outstanding derivative financial instruments.

The US Department of Commerce will announce its final CVD and ADD determinations no later than November 14, 2017, followed by a final injury determination by the US International Trade Commission no later than December 21, 2017. In the event of an affirmative injury determination by the US International Trade Commission, final duties would be imposed on or before January 2, 2018. Final countervailing and anti-dumping determinations may differ from the preliminary determinations. Canfor continues to cooperate with the Provincial and Federal Governments of Canada who have indicated they will vigorously defend the interests of the industry.

SELECTED QUARTERLY FINANCIAL INFORMATION

	Q3 2017	Q2 2017	Q1 2017	Q4 2016	Q3 2016	Q2 2016	Q1 2016	Q4 2015
Sales and income (millions of Canadian dollars)								
Sales	**$ 1,165.2**	$ 1,185.2	$ 1,126.2	$ 1,043.5	$ 1,101.2	$ 1,022.3	$ 1,067.9	$ 1,053.0
Operating income	**$ 105.4**	$ 131.0	$ 106.8	$ 74.0	$ 97.4	$ 69.6	$ 65.1	$ 31.8
Net income	**$ 72.6**	$ 90.9	$ 77.5	$ 44.2	$ 66.4	$ 51.0	$ 42.3	$ 19.6
Shareholder net income	**$ 66.2**	$ 81.3	$ 66.1	$ 38.0	$ 50.9	$ 36.0	$ 26.0	$ 1.6
Per common share (Canadian dollars)								
Shareholder net income – basic and diluted	**$ 0.51**	$ 0.61	$ 0.50	$ 0.29	$ 0.38	$ 0.27	$ 0.20	$ 0.01
Book value[23]	**$ 12.32**	$ 12.14	$ 11.81	$ 11.17	$ 10.70	$ 9.92	$ 9.91	$ 10.02
Common Share Repurchases								
Share volume repurchased (000 shares)	**3,526**	-	-	-	-	-	-	1,050
Shares repurchased (millions of Canadian dollars)	**$ 75.0**	$ -	$ -	$ -	$ -	$ -	$ -	$ 20.0
Statistics								
Lumber shipments (MMfbm) [24]	**1,367**	1,355	1,271	1,272	1,340	1,344	1,355	1,347
Pulp shipments (000 mt)	**303**	276	337	275	320	287	319	356
Average exchange rate – US$/Cdn$	**$ 0.798**	$ 0.744	$ 0.756	$ 0.750	$ 0.766	$ 0.776	$ 0.728	$ 0.749
Average Western SPF 2x4 #2&Btr lumber price (US$)	**$ 406**	$ 388	$ 348	$ 315	$ 322	$ 311	$ 272	$ 263
Average SYP (East) 2x4 #2 lumber price (US$)	**$ 408**	$ 476	$ 482	$ 445	$ 414	$ 437	$ 407	$ 400
Average NBSK pulp list price delivered to China (US$)	**$ 670**	$ 670	$ 645	$ 595	$ 595	$ 617	$ 590	$ 600

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

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

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

After-tax impact, net of non-controlling interests (millions of Canadian dollars, except for per share amounts)	Q3 2017	Q2 2017	Q1 2017	Q4 2016	Q3 2016	Q2 2016	Q1 2016	Q4 2015
Shareholder net income, as reported	**$ 66.2**	$ 81.3	$ 66.1	$ 38.0	$ 50.9	$ 36.0	$ 26.0	$ 1.6
Foreign exchange (gain) loss on long-term debt	**$ (4.4)**	$ (2.9)	$ (1.0)	$ 2.7	$ 0.9	$ (0.3)	$ (6.9)	$ 5.1
Countervailing and anti-dumping duty deposits[25]	**$ 23.5**	$ 25.8	$ -	$ -	$ -	$ -	$ -	$ -
Mill closure provisions[26]	**$ (2.4)**	$ -	$ -	$ (1.5)	$ -	$ -	$ -	$ -
(Gain) loss on derivative financial instruments	**$ 1.4**	$ -	$ (2.4)	$ (1.5)	$ (0.1)	$ (2.3)	$ 1.8	$ (1.2)
Gain on sale of Anthony EACOM Inc.[27]	**$ -**	$ -	$ (3.4)	$ -	$ -	$ -	$ -	$ -
Gain on legal settlement, net[28]	**$ -**	$ -	$ -	$ -	$ -	$ (6.9)	$ -	$ -
Costs associated with pension plan legislation changes	**$ -**	$ -	$ -	$ -	$ -	$ -	$ -	$ 2.4
Net impact of above items	**$ 18.1**	$ 22.9	$ (6.8)	$ (0.3)	$ 0.8	$ (9.5)	$ (5.1)	$ 6.3
Adjusted shareholder net income	**$ 84.3**	$ 104.2	$ 59.3	$ 37.7	$ 51.7	$ 26.5	$ 20.9	$ 7.9
Shareholder net income per share (EPS), as reported	**$ 0.51**	$ 0.61	$ 0.50	$ 0.29	$ 0.38	$ 0.27	$ 0.20	$ 0.01
Net impact of above items per share[29]	**$ 0.14**	$ 0.17	$ (0.05)	$ -	$ 0.01	$ (0.07)	$ (0.04)	$ 0.05
Adjusted net income per share[29]	**$ 0.65**	$ 0.78	$ 0.45	$ 0.29	$ 0.39	$ 0.20	$ 0.16	$ 0.06

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

[26] During the third quarter of 2015, the Company recorded costs of $19.4 million (before-tax) associated with the announced closure of the Canal Flats sawmill. In the third quarter of 2017, $3.2 million (before-tax) of the closure provision was reversed, and in the fourth quarter of 2016, $2.0 million (before-tax) of the closure provision was reversed as a result of lower estimated costs.

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

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

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

Canfor Corporation
Condensed Consolidated Balance Sheets

(millions of Canadian dollars, unaudited)		**As at September 30, 2017**		As at December 31, 2016
ASSETS				
Current assets				
Cash and cash equivalents	**$**	**278.8**	$	156.6
Accounts receivable - Trade		**210.3**		164.2
- Other		**40.7**		66.5
Inventories (Note 3)		**552.9**		549.0
Prepaid expenses		**61.3**		50.6
Total current assets		**1,144.0**		986.9
Property, plant and equipment		**1,420.2**		1,460.8
Timber licenses		**522.2**		532.7
Goodwill and other intangible assets		**225.8**		238.8
Long-term investments and other (Note 4)		**37.2**		50.7
Retirement benefit surplus (Note 6)		**7.1**		5.9
Deferred income taxes, net		**3.5**		1.3
Total assets	**$**	**3,360.0**	$	3,277.1
LIABILITIES				
Current liabilities				
Operating loans (Note 5(a))	**$**	**-**	$	28.0
Accounts payable and accrued liabilities		**450.6**		384.1
Current portion of deferred reforestation obligations		**48.5**		48.5
Forward purchase liability (Note 12(a))		**-**		41.7
Current portion of long-term debt (Note 5(b))		**0.3**		-
Total current liabilities		**499.4**		502.3
Long-term debt (Note 5(b))		**429.9**		448.0
Retirement benefit obligations (Note 6)		**317.0**		302.2
Deferred reforestation obligations		**53.5**		56.9
Other long-term liabilities		**23.4**		23.7
Deferred income taxes, net		**203.6**		205.5
Total liabilities	**$**	**1,526.8**	$	1,538.6
EQUITY				
Share capital	**$**	**1,019.9**	$	1,047.7
Contributed surplus and other equity		**31.9**		(4.6)
Retained earnings		**488.8**		351.7
Accumulated other comprehensive income		**52.5**		88.9
Total equity attributable to equity shareholders of the Company		**1,593.1**		1,483.7
Non-controlling interests		**240.1**		254.8
Total equity	**$**	**1,833.2**	$	1,738.5
Total liabilities and equity	**$**	**3,360.0**	$	3,277.1

Subsequent Event (Note 12(b))

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

APPROVED BY THE BOARD

Director, R.S. Smith

Director, C.A. Pinette

Canfor Corporation

Condensed Consolidated Statements of Income

(millions of Canadian dollars, except per share data, unaudited)	3 months ended September 30, **2017**	2016	9 months ended September 30, **2017**	2016
Sales	**$ 1,165.2**	$ 1,101.2	**$ 3,476.6**	$ 3,191.4
Costs and expenses				
Manufacturing and product costs	**784.9**	753.6	**2,309.5**	2,218.2
Freight and other distribution costs	**157.4**	161.0	**487.4**	485.3
Countervailing and anti-dumping duties (Note 15)	**31.7**	-	**66.5**	-
Amortization	**61.5**	60.6	**185.9**	178.7
Selling and administration costs	**26.9**	28.8	**85.5**	77.0
Restructuring, mill closure and severance costs, net of recovery	**(2.6)**	0.6	**(0.8)**	3.1
	$ 1,059.8	$ 1,004.6	**$ 3,134.0**	$ 2,962.3
Equity income (Note 4)	**-**	0.8	**0.6**	3.0
Operating income	**105.4**	97.4	**343.2**	232.1
Finance expense, net	**(8.1)**	(8.2)	**(23.9)**	(24.8)
Foreign exchange gain (loss) on long-term debt	**5.0**	(1.1)	**9.5**	7.2
Gain (loss) on derivative financial instruments (Note 7)	**(1.9)**	0.1	**1.3**	0.8
Other income (expense), net	**(4.3)**	1.3	**(5.3)**	(8.4)
Net income before income taxes	**96.1**	89.5	**324.8**	206.9
Income tax expense (Note 8)	**(23.5)**	(23.1)	**(83.8)**	(47.2)
Net income	**$ 72.6**	$ 66.4	**$ 241.0**	$ 159.7
Net income attributable to:				
Equity shareholders of the Company	**$ 66.2**	$ 50.9	**$ 213.6**	$ 112.9
Non-controlling interests	**6.4**	15.5	**27.4**	46.8
Net income	**$ 72.6**	$ 66.4	**$ 241.0**	$ 159.7
Net income per common share: (in Canadian dollars)				
Attributable to equity shareholders of the Company				
- Basic and diluted (Note 9)	**$ 0.51**	$ 0.38	**$ 1.62**	$ 0.85

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, **2017**	2016	9 months ended September 30, **2017**	2016
Net income	**$ 72.6**	$ 66.4	**$ 241.0**	$ 159.7
Other comprehensive income (loss)				
Items that will not be recycled through net income:				
Defined benefit plan actuarial gains (losses) (Note 6)	**17.6**	(2.0)	**(14.3)**	(71.2)
Income tax recovery (expense) on defined benefit plan actuarial losses/gains (Note 8)	**(4.6)**	0.5	**3.7**	18.5
	13.0	(1.5)	**(10.6)**	(52.7)
Items that may be recycled through net income:				
Foreign exchange translation of foreign operations, net of tax	**(19.9)**	3.8	**(36.4)**	(21.5)
Change in fair value of available-for-sale financial instruments, net of tax	**-**	0.2	**-**	0.2
Other comprehensive income (loss), net of tax	**(6.9)**	2.5	**(47.0)**	(74.0)
Total comprehensive income	**$ 65.7**	$ 68.9	**$ 194.0**	$ 85.7
Total comprehensive income attributable to:				
Equity shareholders of the Company	**$ 57.3**	$ 53.8	**$ 168.2**	$ 45.3
Non-controlling interests	**8.4**	15.1	**25.8**	40.4
Total comprehensive income	**$ 65.7**	$ 68.9	**$ 194.0**	$ 85.7

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, 2017	3 months ended September 30, 2016	9 months ended September 30, 2017	9 months ended September 30, 2016
Share capital				
Balance at beginning of period	**$ 1,047.7**	$ 1,047.7	**$ 1,047.7**	$ 1,047.7
Share purchases (Note 9)	**(27.8)**	-	**(27.8)**	-
Balance at end of period	**$ 1,019.9**	$ 1,047.7	**$ 1,019.9**	$ 1,047.7
Contributed surplus and other equity				
Balance at beginning of period	**$ 31.9**	$ (74.5)	**$ (4.6)**	$ (74.5)
Forward purchase liability related to acquisition (Note 12(a))	**-**	69.9	**36.5**	69.9
Balance at end of period	**$ 31.9**	$ (4.6)	**$ 31.9**	$ (4.6)
Retained earnings				
Balance at beginning of period	**$ 460.4**	$ 270.0	**$ 351.7**	$ 257.7
Net income attributable to equity shareholders of the Company	**66.2**	50.9	**213.6**	112.9
Defined benefit plan actuarial gains (losses), net of tax	**11.0**	(1.0)	**(9.0)**	(46.2)
Share purchases (Note 9)	**(47.2)**	-	**(47.2)**	-
Elimination of non-controlling interests (Note 12(a))	**-**	(20.0)	**(16.6)**	(20.0)
Acquisition of non-controlling interests (Note 9)	**(1.6)**	-	**(3.7)**	(4.5)
Balance at end of period	**$ 488.8**	$ 299.9	**$ 488.8**	$ 299.9
Accumulated other comprehensive income				
Balance at beginning of period	**$ 72.4**	$ 74.7	**$ 88.9**	$ 100.0
Foreign exchange translation of foreign operations, net of tax	**(19.9)**	3.8	**(36.4)**	(21.5)
Change in fair value of available-for-sale financial instruments, net of tax	**-**	0.1	**-**	0.1
Balance at end of period	**$ 52.5**	$ 78.6	**$ 52.5**	$ 78.6
Total equity attributable to equity holders of the Company	**$ 1,593.1**	$ 1,421.6	**$ 1,593.1**	$ 1,421.6
Non-controlling interests				
Balance at beginning of period	**$ 239.5**	$ 290.7	**$ 254.8**	$ 296.8
Net income attributable to non-controlling interests	**6.4**	15.5	**27.4**	46.8
Defined benefit pension plan actuarial gains (losses) attributable to non-controlling interests, net of tax	**2.0**	(0.5)	**(1.6)**	(6.5)
Change in fair value of available-for-sale financial instruments, net of tax	**-**	0.1	**-**	0.1
Distributions to non-controlling interests	**(2.2)**	(11.6)	**(6.6)**	(23.1)
Acquisition of non-controlling interests (Note 9)	**(5.6)**	-	**(14.0)**	(19.9)
Elimination of non-controlling interests (Note 12(a))	**-**	(39.7)	**(19.9)**	(39.7)
Balance at end of period	**$ 240.1**	$ 254.5	**$ 240.1**	$ 254.5
Total equity	**$ 1,833.2**	$ 1,676.1	**$ 1,833.2**	$ 1,676.1

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

Canfor Corporation
Condensed Consolidated Statements of Cash Flows

(millions of Canadian dollars, unaudited)	3 months ended September 30, **2017**	3 months ended September 30, 2016	9 months ended September 30, **2017**	9 months ended September 30, 2016
Cash generated from (used in):				
Operating activities				
Net income	**$ 72.6**	$ 66.4	**$ 241.0**	$ 159.7
Items not affecting cash:				
Amortization	**61.5**	60.6	**185.9**	178.7
Income tax expense	**23.5**	23.1	**83.8**	47.2
Long-term portion of deferred reforestation obligations	**(12.5)**	(5.3)	**(3.9)**	(1.1)
Foreign exchange (gain) loss on long-term debt	**(5.0)**	1.1	**(9.5)**	(7.2)
Changes in mark-to-market value of derivative financial instruments	**1.8**	(1.0)	**1.8**	(4.4)
Employee future benefits	**3.2**	3.3	**9.7**	9.7
Finance expense, net	**8.1**	8.2	**23.9**	24.8
Gain on sale of Anthony EACOM Inc. (Note 4)	**-**	-	**(4.0)**	-
Gain on legal settlement, net (Note 13)	**-**	-	**-**	(15.5)
Equity income	**-**	(0.8)	**(0.6)**	(3.0)
Operations closure provisions	**(3.2)**	-	**(3.2)**	-
Other, net	**(0.2)**	3.3	**(5.1)**	0.4
Defined benefit plan contributions, net	**(5.8)**	(15.2)	**(18.4)**	(25.6)
Cash received from legal settlement (Note 13)	**-**	16.3	**-**	16.3
Income taxes paid, net	**(21.6)**	(13.5)	**(39.7)**	(30.1)
	122.4	146.5	**461.7**	349.9
Net change in non-cash working capital (Note 10)	**4.7**	2.1	**(8.2)**	72.9
	127.1	148.6	**453.5**	422.8
Financing activities				
Change in operating bank loans (Note 5(a))	**-**	(33.0)	**(28.0)**	(62.0)
Proceeds from long-term debt (Note 5(b))	**-**	-	**1.7**	-
Repayment of long-term debt (Note 5(b))	**(0.1)**	-	**(0.2)**	-
Finance expenses paid	**(4.8)**	(3.5)	**(14.4)**	(14.5)
Share purchases (Note 9)	**(75.0)**	-	**(75.0)**	-
Acquisition of non-controlling interests (Note 9)	**(7.5)**	(0.3)	**(17.7)**	(24.7)
Cash distributions paid to non-controlling interests	**(2.2)**	(11.6)	**(8.2)**	(23.1)
	(89.6)	(48.4)	**(141.8)**	(124.3)
Investing activities				
Additions to property, plant and equipment, timber, and intangible assets, net	**(57.5)**	(57.1)	**(158.1)**	(170.4)
Proceeds on sale of Anthony EACOM Inc., net (Note 4)	**1.4**	-	**8.0**	-
Proceeds on sale of Lakeland Winton (Note 14)	**-**	-	**15.0**	-
Proceeds on disposal of property, plant, and equipment	**2.0**	-	**10.3**	-
Acquisition of Beadles & Balfour (Note 12(a))	**-**	-	**(41.8)**	-
Acquisition of Scotch Gulf (Note 12(a))	**-**	(61.6)	**-**	(61.6)
Acquisition of Wynndel (Note 12(b))	**-**	(2.6)	**(14.4)**	(22.3)
Other, net	**(5.0)**	4.7	**(3.9)**	3.6
	(59.1)	(116.6)	**(184.9)**	(250.7)
Foreign exchange gain (loss) on cash and cash equivalents	**(2.5)**	0.7	**(4.6)**	(3.5)
Increase (decrease) in cash and cash equivalents*	**(24.1)**	(15.7)	**122.2**	44.3
Cash and cash equivalents at beginning of period*	**302.9**	157.5	**156.6**	97.5
Cash and cash equivalents at end of period*	**$ 278.8**	$ 141.8	**$ 278.8**	$ 141.8

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

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

1. Basis of Preparation

These condensed consolidated interim financial statements (the "financial statements") have been prepared in accordance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting*, and include the accounts of Canfor Corporation and its subsidiary entities, including Canfor Pulp Products Inc. ("CPPI"), hereinafter referred to as "Canfor" or "the Company."

These financial statements do not include all of the disclosures required by International Financial Reporting Standards ("IFRS") for annual financial statements. Additional disclosures relevant to the understanding of these financial statements, including the accounting policies applied, can be found in the Company's Annual Report for the year ended December 31, 2016, available at www.canfor.com or www.sedar.com.

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

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

These financial statements were authorized for issue by the Company's Board of Directors on October 20, 2017.

Accounting Standards Issued and Not Applied

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

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

In January 2016, the IASB issued IFRS 16, *Leases*, which will supersede IAS 17, *Leases* and related interpretations. The required adoption date for IFRS 16 is January 1, 2019 and the Company is in the process of assessing the impact on its financial statements of this new standard.

2. Seasonality of Operations

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

3. Inventories

(millions of Canadian dollars, unaudited)	**As at September 30, 2017**	As at December 31, 2016
Logs	**$ 98.5**	$ 107.3
Finished products	**313.2**	310.6
Residual fibre	**20.3**	13.8
Materials and supplies	**120.9**	117.3
	$ 552.9	$ 549.0

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

4. Long-Term Investments and Other

(millions of Canadian dollars, unaudited)		**As at September 30, 2017**		As at December 31, 2016
Investments	**$**	**21.6**	$	14.7
Equity investment in Anthony EACOM Inc.		**-**		16.8
Other deposits, loans and advances		**15.6**		19.2
	$	**37.2**	$	50.7

On March 31, 2017, the Company sold its 50% investment in Anthony EACOM Inc. to EACOM Timber Corporation for net proceeds of $21.4 million and recorded a gain of $4.0 million in Other Income in the first quarter of 2017. For the nine months ended September 30, 2017, instalments of $8.0 million have been received, with the remaining $13.5 million due under a secured promissory note payable in equal instalments by March 31, 2020. Of this balance, $5.4 million is recorded under Accounts Receivable – Other and $8.1 million is recorded as a receivable under Other deposits, loans and advances. Prior to the sale, the Company's interest in Anthony EACOM Inc. was classified as a joint venture and accounted for using the equity method of accounting.

5. Operating Loans and Long-Term Debt

(a) Available Operating Loans

(millions of Canadian dollars, unaudited)		**As at September 30, 2017**		As at December 31, 2016
Canfor (excluding CPPI)				
Available Operating Loans:				
Operating loan facility	**$**	**350.0**	$	350.0
Facility for letters of credit		**50.0**		50.0
Total operating loan facility		**400.0**		400.0
Operating loan drawn		**-**		(28.0)
Letters of credit		**(41.7)**		(41.6)
Total available operating loan facility - Canfor	**$**	**358.3**	$	330.4
CPPI				
Available Operating Loans:				
Operating loan facility	**$**	**110.0**	$	110.0
Letters of credit		**(9.0)**		(9.3)
Total available operating loan facility - CPPI	**$**	**101.0**	$	100.7
Consolidated:				
Total operating loan facilities	**$**	**510.0**	$	510.0
Total available operating loan facilities	**$**	**459.3**	$	431.1

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

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

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

During the third quarter of 2017, the Company's principal operating loans, excluding those of CPPI, were extended to September 28, 2022.

Canfor (excluding CPPI) has a separate facility to cover letters of credit. At September 30, 2017, $39.2 million of letters of credit outstanding are covered under this facility with the balance of $2.5 million covered under Canfor's general operating loan facility.

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

(b) Long-Term Debt

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

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

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

Fair value of total long-term debt

At September 30, 2017, the fair value of the Company's long-term debt is $434.4 million (December 31, 2016 - $447.2 million). The fair value was determined based on prevailing market rates for long-term debt with similar characteristics and risk profile.

6. Employee Future Benefits

For the three months ended September 30, 2017, defined benefit plan actuarial gains of $17.6 million (before tax) were recognized in other comprehensive income (loss). The gains recorded in the third quarter of 2017 principally reflect a higher discount rate used to value the net defined benefit plan obligations partially offset by a return on plan assets lower than discount rate. For the nine months ended September 30, 2017, losses of $14.3 million (before tax) were recognized in other comprehensive income (loss). For the three and nine months ended September 30, 2016, the Company recognized before tax actuarial losses in other comprehensive income (loss) of $2.0 million and $71.2 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 defined benefit pension obligation by an estimated $89.8 million, of which 42% (December 31, 2016 – 33%) is fully hedged against changes in discount rates and longevity risk (potential increases in life expectancy of plan members) through buy-in annuities, and a further 24% (December 31, 2016 – 32%) is partially hedged through the plan's investment in debt securities. For the Company's other benefit plans, a one percentage point increase in the discount rate used in calculating the actuarial estimate of future liabilities would decrease the accrued benefit obligation by an estimated $22.9 million.

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

	Defined Benefit Pension Plans	**Other Benefit Plans**
September 30, 2017	**3.8%**	**3.8%**
June 30, 2017	3.5%	3.5%
December 31, 2016	3.9%	3.9%
September 30, 2016	3.4%	3.4%
June 30, 2016	3.5%	3.5%
December 31, 2015	4.1%	4.1%

In the second quarter of 2017, the Company purchased $90.5 million of buy-in annuities through its defined benefit pension plans, increasing total annuities purchased to $377.1 million. Future cash flows from the annuities will match the amount and timing of benefits payable under the plans, substantially mitigating the exposure to future volatility in the related pension obligations. Transaction costs of $4.6 million related to the purchase were recognized in other comprehensive income (loss) in the second quarter of 2017, principally reflecting the difference between the annuity rate (which is comparable to solvency rates) compared to the discount rate used to value the obligations on a going concern basis.

7. Financial Instruments

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

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

The three levels of the fair value hierarchy are:

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

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

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

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

(millions of Canadian dollars, unaudited)	Fair Value Hierarchy Level	**As at September 30, 2017**	As at December 31, 2016
Financial assets measured at fair value			
Investments - held for trading	Level 1	**$ 21.1**	$ 14.3
Derivative financial instruments - held for trading	Level 2	**-**	0.2
		$ 21.1	$ 14.5
Financial liabilities measured at fair value			
Derivative financial instruments - held for trading	Level 2	**$ (1.8)**	$ 0.1
		$ (1.8)	$ 0.1

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

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

At September 30, 2017, the fair value of derivative financial instruments is a net liability of $1.8 million (December 31, 2016 - net asset of $0.1 million). The fair value of these financial instruments was determined based on prevailing market rates for instruments with similar characteristics.

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

(millions of Canadian dollars, unaudited)	3 months ended September 30, **2017**	3 months ended September 30, 2016	9 months ended September 30, **2017**	9 months ended September 30, 2016
Lumber futures	**$ (1.9)**	$ 0.4	**$ 1.3**	$ 1.6
Energy derivatives	**-**	(0.3)	**-**	(0.9)
Foreign exchange collars and forward contracts	**-**	-	**-**	0.1
Gain (loss) on derivative financial instruments	**$ (1.9)**	$ 0.1	**$ 1.3**	$ 0.8

8. Income Taxes

(millions of Canadian dollars, unaudited)	3 months ended September 30, **2017**	3 months ended September 30, 2016	9 months ended September 30, **2017**	9 months ended September 30, 2016
Current	**$ (19.5)**	$ (14.9)	**$ (80.1)**	$ (35.1)
Deferred	**(4.0)**	(8.2)	**(3.7)**	(12.1)
Income tax expense	**$ (23.5)**	$ (23.1)	**$ (83.8)**	$ (47.2)

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, **2017**	2016	9 months ended September 30, **2017**	2016
Income tax expense at statutory rate of 26.0%	**$ (24.9)**	$ (23.3)	**$ (84.4)**	$ (53.8)
Add (deduct):				
Entities with different income tax rates and other tax adjustments	**0.5**	(1.1)	**(1.4)**	(1.3)
Non-taxable income related to non-controlling interests	**0.1**	1.3	**0.3**	6.3
Permanent difference from capital gains and other non-deductible items	**0.8**	-	**1.7**	1.6
Income tax expense	**$ (23.5)**	$ (23.1)	**$ (83.8)**	$ (47.2)

In addition to the amounts recorded to net income, a tax expense of $4.6 million was recorded to other comprehensive income (loss) for the three months ended September 30, 2017 in relation to the actuarial gains on defined benefit plans (three months ended September 30, 2016 - tax recovery of $0.5 million). For the nine months ended September 30, 2017, the tax recovery in relation to actuarial losses was $3.7 million (nine months ended September 30, 2016 - tax recovery of $18.5 million).

Also included in other comprehensive income (loss) for the three months ended September 30, 2017 was a tax recovery of $1.3 million related to foreign exchange differences on translation of investments in foreign operations (three months ended September 30, 2016 - tax expense of $0.3 million). For the nine months ended September 30, 2017, the tax recovery was $2.6 million (nine months ended September 30, 2016 - tax recovery of $2.0 million).

9. Earnings per Share and Normal Course Issuer Bid

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

	3 months ended September 30, **2017**	2016	9 months ended September 30, **2017**	2016
Weighted average number of common shares	**130,986,807**	132,804,543	**132,200,842**	132,804,543

On March 7, 2017, the Company renewed its normal course issuer bid whereby it can purchase for cancellation up to 6,640,227 common shares or approximately 5% of its issued and outstanding common shares as of March 1, 2017. The renewed normal course issuer bid is set to expire on March 6, 2018. During the third quarter of 2017, Canfor purchased 3,526,387 common shares for $75.0 million (an average of $21.27 per common share). During the first half of 2017, Canfor did not purchase any common shares. As at October 20, 2017, there were 129,278,136 common shares of the Company outstanding.

Under a separate normal course issuer bid, CPPI purchased 568,425 common shares in the third quarter of 2017 for $7.2 million (an average of $12.67 per common share) from non-controlling shareholders, and paid an additional $0.3 million in relation to shares purchased earlier in the year. For the nine months ended September 30, 2017, CPPI purchased 1,440,528 common shares for $17.7 million (an average of $12.29 per common share). As at October 20, 2017, Canfor's ownership interest in CPPI was 54.8%.

10. Net Change in Non-Cash Working Capital

(millions of Canadian dollars, unaudited)	3 months ended September 30, **2017**	2016	9 months ended September 30, **2017**	2016
Accounts receivable	**$ (3.5)**	$ 0.9	**$ (37.6)**	$ (2.4)
Inventories	**(0.7)**	8.3	**(9.9)**	58.9
Prepaid expenses	**4.6**	(7.4)	**(12.0)**	(25.0)
Accounts payable, accrued liabilities and current portion of deferred reforestation obligations	**4.3**	0.3	**51.3**	41.4
Net decrease (increase) in non-cash working capital	**$ 4.7**	$ 2.1	**$ (8.2)**	$ 72.9

11. 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, 2017										
Sales to external customers	**$**	**880.4**	**$**	**284.8**	**$**	**-**	**$**	**-**	**$**	**1,165.2**
Sales to other segments		**46.3**		**0.1**		**-**		**(46.4)**		**-**
Operating income (loss)		**92.9**		**21.1**		**(8.6)**		**-**		**105.4**
Amortization		**43.2**		**18.3**		**-**		**-**		**61.5**
Capital expenditures[1]		**37.4**		**19.0**		**1.1**		**-**		**57.5**
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 expenditures[1]		39.8		14.0		3.3		-		57.1
9 months ended September 30, 2017										
Sales to external customers	**$**	**2,601.8**	**$**	**874.8**	**$**	**-**	**$**	**-**	**$**	**3,476.6**
Sales to other segments		**129.1**		**0.2**		**-**		**(129.3)**		**-**
Operating income (loss)		**287.0**		**87.8**		**(31.6)**		**-**		**343.2**
Amortization		**130.3**		**55.6**		**-**		**-**		**185.9**
Capital expenditures[1]		**98.0**		**55.0**		**5.1**		**-**		**158.1**
Identifiable assets		**2,219.0**		**793.4**		**347.6**		**-**		**3,360.0**
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 expenditures[1]		118.8		45.7		5.9		-		170.4
Identifiable assets		2,295.7		796.6		212.1		-		3,304.4

[1]Capital expenditures represent cash paid for capital assets during the periods. Pulp & Paper includes capital expenditures by CPPI that were partially financed by government grants. Capital expenditures exclude the assets purchased as part of the acquisition of Wynndel Box and Lumber Ltd. in 2016 (Note 12(b)).

12. Acquisitions

(a) US South

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

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

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

(b) Wynndel Box and Lumber Ltd.

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

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

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

13. Houston Pellet Limited Partnership Settlement

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

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

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

15. Countervailing and Anti-Dumping Duties

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

On April 24, 2017, the DOC announced its preliminary countervailing duty of 20.26% specific to Canfor, to be posted by cash deposits or bonds on the exports of softwood lumber to the US effective April 28, 2017 to August 26, 2017. On June 23, 2017, the DOC announced its preliminary anti-dumping duty determination of 7.72% specific to Canfor, to be posted by cash deposits or bonds on the exports of softwood lumber to the US effective June 30, 2017. Accordingly, for the three and nine months ended September 30, 2017, countervailing and anti-dumping duty deposits of $31.7 million, and $66.5 million respectively, have been expensed reflecting the duties paid on deposits for sales recognized in the period.

The final countervailing and anti-dumping duty determinations will be aligned for DOC administrative purposes. The US Department of Commerce will announce its final CVD and ADD determinations no later than November 14, 2017, followed by a final injury determination by the US International Trade Commission no later than December 21, 2017. In the event of an affirmative injury determination by the US International Trade Commission, final duties would be imposed on or before January 2, 2018. Final countervailing and anti-dumping determinations may differ from the preliminary determinations.

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