CANFOR CORPORATION

2017

MANAGEMENT'S DISCUSSION & ANALYSIS

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This Management's Discussion and Analysis ("MD&A") provides a review of Canfor Corporation's ("Canfor" or "the Company") financial performance for the year ended December 31, 2017 relative to the year ended December 31, 2016, and the financial position of the Company at December 31, 2017. It should be read in conjunction with Canfor's Annual Information Form and its audited consolidated financial statements and accompanying notes for the years ended December 31, 2017 and 2016. The financial information contained in this 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 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 reconciliation included in the section "Overview of Consolidated Results – 2017 Compared to 2016") 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, Adjusted Operating Income, Adjusted Shareholder Net Income and Adjusted Shareholder Net Income per Share are not generally accepted earnings measures under IFRS 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 Operating Income, 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.

Factors that could impact future operations are also discussed. These factors may be influenced by 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. Certain comparative amounts have been reclassified to conform to current presentation. The information in this report is as at February 22, 2018.

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.

2017 HIGHLIGHTS

Despite many challenges presented by extreme weather, forest fires and the introduction of softwood lumber duties on Canadian exports to the United States ("US"), the Company generated strong financial results in 2017 largely on the back of stronger lumber and pulp market prices and the Company's continued margin focus. Consolidated operating income at $557.4 million was up $251.3 million, or 82%, from 2016.

The Company remained focused on its high-value strategy in 2017, generating higher revenue and margins through increased market, customer and product diversification. North American lumber demand was solid across all segments of the market through 2017, as the US housing market continued its ongoing slow but gradual recovery. Strong underlying North American and offshore demand, in combination with supply constraints resulting from the worst fire season in recorded history in British Columbia ("BC"), as well as uncertainty surrounding the introduction of softwood lumber duties, gave rise to a significant increase in benchmark lumber prices in 2017.

Consistent with its top-line revenue and financial margin focus, the Company produced and shipped a record number of prime (better than #2&Btr) products in 2017, at both its Western Spruce/Pine/Fir ("Western SPF") and Southern Yellow Pine ("SYP") operations, aided by a continued shift into greener fibre in Western Canada and targeted capital spending. Despite extreme winter weather conditions, significant rainfall, forest fires and hurricanes through 2017, lumber production was maintained broadly in line with the prior year, with an increasing proportion of capital deployed in the US South contributing to higher productivity rates, and disciplined cost management offsetting the weather-related disruptions in Western Canada. Shipment volumes, particularly from the latter region, however, were adversely impacted by weather related transportation challenges in late 2017.

Market-driven increases in purchased wood costs and stumpage were major factors contributing to higher unit log costs in Western Canada in 2017. Log deliveries were impacted by the challenging weather conditions and forest fire season in BC, which disrupted both log procurement efforts and operations, and contributed to higher unit log costs and slightly lower production in Western Canada. Unit log costs for Canfor's operations in the US South region were stable, reflecting significant volumes of high-quality fibre in close proximity to its sawmills and muted pressure on log costs.

Overall operating results for the lumber segment were well up in 2017 compared to 2016, as significantly higher lumber prices, a higher-value sales mix and stable log costs in the US South more than offset higher unit manufacturing costs in Western Canada.

Global pulp market conditions were relatively stable for the first half of 2017, but improved considerably in the latter part of the year, mostly as a result of a decision by the Chinese government to restrict recovered paper imports as well as various unforeseen global pulp supply disruptions. Northern Bleached Softwood Kraft ("NBSK") pulp list prices to China averaged US$712 per tonne for the year, US$113 per tonne higher than in 2016, and ended the 2017 year at a near-record high price of US$890 per tonne. Prices to other regions saw more modest year-over-year gains. The appreciation of US-dollar prices across all regions significantly outweighed the effects of a modest strengthening of the Canadian dollar and increased discounts in North American markets during the year.

Operating results for the pulp and paper segment were $154.6 million, up $56.4 million from the previous year, as higher average NBSK pulp and Bleached Chemi-Thermo Mechanical Pulp ("BCTMP") unit sales realizations more than offset market-related increases in fibre costs, and higher chemical and energy costs.

The Company continued to preserve its strong financial position in 2017, applying a disciplined approach to cash allocation for internal investment and growth. The Company ended the year with cash and cash equivalents of $288.2 million, consolidated net debt of $97.5 million and a consolidated net debt to capitalization ratio of 4.6%, a decrease of $221.9 million, or 10.9% compared to the prior year. In 2017, Canfor's Board of Directors approved a $160 million capital investment program focused on expanding production capacity at its US South sawmill operations by approximately 350 million board feet by the end of 2019. Subsequent to year end, Canfor's Board of Directors also approved the construction of a new state-of-the-art US$120 million greenfield sawmill in Georgia, with annual capacity of 275 million board feet. Upon completion, these capital investments will increase Canfor's lumber production capacity to approximately 6.1 million board feet, with the Company's Southern Yellow Pine lumber capacity growing to approximately 2.1 billion board feet, or one-third of total production. In mid-2017, Canfor Pulp Products Inc. ("CPPI") announced the installation of a new condensing turbo-generator at its Northwood NBSK pulp mill and a major upgrade of the refining line at the Taylor BCTMP mill at a combined cost of $105 million. These two projects will yield a significant improvement in overall mill energy efficiency and will result in a material reduction in total fuel consumption.

As part of its Balance Sheet management, the Company purchased a further $136 million of annuities through its defined benefit pension plans in 2017, significantly mitigating its exposure to future volatility fluctuations in related pension obligations. The Company was also active in repurchasing shares through 2017, purchasing approximately 4.2 million common shares under its Normal Course Issuer Bid for $90.7 million, at an average price of $21.81 per share. CPPI, under its own normal course issuer bid, purchased approximately 1.4 million common shares for $17.8 million (an average of $12.29 per share).

Further discussion on the more significant developments is provided in the "Overview of 2017" section of this document.

COMPANY OVERVIEW

Canfor is a leading Canadian integrated forest products company based in Vancouver, British Columbia, involved primarily in the lumber business, with production facilities in BC, Alberta and the US. Canfor also has a 54.8% interest in CPPI which is involved in the pulp and paper business with production facilities located in BC. As of December 31, 2017, Canfor employed 6,284 people, of which 1,279 are employed by CPPI.

Significant changes to the Company's business in 2017 include the following:

- On January 2, 2017, the Company completed the final phase of its purchase of Beadles Lumber Company & Balfour Lumber Company Inc. ("Beadles & Balfour") located in Georgia, increasing its ownership from 55% to 100%. Beadles & Balfour operates two sawmills in an area with a high-quality fibre supply, with one sawmill focused primarily on one-inch lumber products and the other sawmill producing structural lumber, with combined annual production capacity of 250 million board feet following capital upgrades and additional shifting. The aggregate purchase price for Beadles & Balfour was $93.4 million, including working capital.
- On March 31, 2017, the Company completed the sale of its 50% investment in Anthony EACOM Inc., an I-joist plant located in Sault Ste. Marie, Ontario with annual capacity of 54 million lineal feet, for net proceeds of $21.1 million.
- In late 2015 and early 2016, the Company completed the construction of two pellet plants located at the Chetwynd and Fort St. John sawmill sites, in the Northern British Columbia interior (the "pellet plants") in partnership with Pacific BioEnergy Corporation ("Pacific BioEnergy"). As of December 31, 2017 Canfor owned an approximate 95% interest in the pellet plants while Pacific BioEnergy owned the remaining 5%. Subsequent to year end, on January 1, 2018, Pacific BioEnergy exercised its option to increase its ownership interest in the pellet plants to 15%.

Lumber

Canfor's existing lumber operations will have an annual production capacity of approximately 6.1 billion board feet of lumber reflecting Board approved near-term capital investments and the announced greenfield sawmill. The majority of lumber produced by Canfor from its facilities is construction and specialty grade dimension lumber that ranges in size from one by three inches to two by twelve inches and in lengths from six to twenty-six feet. A significant and increasing proportion of Canfor's lumber production is comprised of specialty products that command premium prices, and high-value products including Square Edge lumber for the North American market, J-grade lumber for the Japanese market, and machine stress rated ("MSR") lumber used in engineered applications such as roof trusses and floor joists. Canfor has expanded its product offering in recent years to include high-value engineered wood products, higher-grade MSR lumber, as well as premium one-inch boards.

Canfor's lumber operations also include one finger-joint plant, two glulam plants, one whole-log chipping plant and a trucking division. As outlined above, the Company, in partnership with Pacific BioEnergy, operates pellet plants at the Chetwynd and Fort St. John Sawmill sites. Canfor's lumber business segment also includes a 60% interest in the Houston Pellet Limited Partnership, which has an annual capacity of approximately 225,000 tonnes of wood pellets.

Canfor holds approximately 11.7 million cubic metres of annual harvesting rights for its solid wood operations under various forest tenures located in the interior region of BC and northern Alberta, and harvests logs from those tenures to supply its interior lumber operations. Any shortfalls in mill requirements are made up with wood purchased from other tenure holders in those areas. The wood fibre requirements in the US are met through open market purchases from private timberland owners.

Canfor markets lumber products throughout North America and overseas, through its sales offices in Vancouver, Canada; Mobile, US; Tokyo, Japan; Seoul, South Korea and Shanghai, China. In addition to its own production, Canfor also markets lumber produced externally to complement its product line. While a significant proportion of Canfor's product is sold to markets in the United States, the proportion of shipments to offshore markets, particularly China, has risen significantly in recent years. The Company ships substantially all lumber destined for North America by truck and rail, while the vast majority of product sold offshore is transported by container ship.

Pulp and Paper

Canfor's Pulp and Paper segment is comprised of three northern softwood market kraft pulp mills and the Taylor pulp mill, all of which are owned and operated by CPPI in BC. CPPI produces NBSK pulp, BCTMP, and specialty paper. NBSK pulp is primarily a bleached product, although unbleached and semi-bleached grades are also produced at the Prince George pulp and paper mill.

The CPPI mills have the annual capacity to produce approximately 1.1 million tonnes of northern softwood market kraft pulp and approximately 220,000 tonnes of BCTMP. CPPI's paper machine, located at the Prince George pulp and paper mill, has an annual production capacity of approximately 140,000 tonnes of kraft paper.

Canfor supplies CPPI with residual wood chips and hog fuel (principally bark) produced at certain of its specified sawmills. Prices paid by CPPI for residual wood chips are based on a pricing formula to reflect market prices and conditions, with hog fuel purchased by CPPI at market prices. CPPI also has fibre supply agreements with third parties to supplement its supply of wood chips and hog fuel.

All pulp produced by CPPI is sold by CPPI's sales offices in Vancouver, Canada, Tokyo, Japan, and Seoul, South Korea, to customers primarily in North America, Europe and Asia. The significant majority of product sold to North America is shipped by rail, while product sold overseas is transported by container or breakbulk vessels.

Business Strategy

One of Canfor's primary objectives is to be the preferred supplier of wood products to the building industry around the world, with a particular focus on North America and Asia. Canfor is focused on increasing its building products business in global markets, including key offshore markets such as China and Japan, and on making higher value structural lumber and specialized products for specific customer needs. The Company is also committed to being a major supplier to the retail segment of the lumber market.

Canfor's overall business strategy is to be a leader in the forest products industry achieving top-quartile margin performance by:

- Expanding geographical markets, increasing market share of value-added products and building strong long-term partnerships with valued customers;
- Optimizing the extraction of high-margin products and value from its available fibre sources, and maintaining the premium quality of its products;
- Attaining world class supply chain performance;
- Achieving and maintaining a low-cost structure and maintaining a strong financial position;
- Developing an enterprise-wide culture of safety, innovation and engagement;
- Capitalizing on attractive growth opportunities; and
- Growing its green energy business and positioning the Company as a leading supplier of green, environmentally friendly building products.

CPPI is focused on being a pulp and paper industry leader with strong financial performance accomplished through:

- Preserving its low-cost operating position;
- Maintaining the premium quality of its products;
- Growing its green energy business;
- Developing an enterprise-wide culture of safety, innovation and engagement; and
- Capitalizing on attractive growth opportunities.

OVERVIEW OF 2017

Markets and Pricing

(i) Solid Wood

North American lumber demand improved through 2017 as the US housing market continued its ongoing slow but gradual recovery, while demand continued to strengthen in the repair and remodeling sector. In Canada, housing construction activity reached historical highs in 2017, while offshore lumber demand from China, Japan and other regions remained strong, and reflected steadily increasing demand for the Company's higher-value lumber products. A combination of increased lumber consumption, constraints on Western SPF supply, and the imposition of countervailing and anti-dumping duties (see further discussion in the "Countervailing and Anti-dumping Duties" section of this document) resulted in significantly higher average US-dollar benchmark lumber prices through the year, particularly for Western SPF products.

The North American benchmark Western SPF 2x4 #2&Btr lumber price was up US$96 per Mfbm[1], or 31%, compared to 2016, while the Western SPF 2x6 #2&Btr lumber price was up US$117 per Mfbm[1], or 41%. Pricing for wider-width Western SPF products saw more modest increases. The following table shows benchmark Random Lengths prices for selected key grades and widths of Western SPF lumber:

(Average Western SPF US$ price, per thousand board feet) [1]		2017		2016
2x4 #2&Btr	**$**	**401**	$	305
2x4 #3	**$**	**323**	$	240
2x6 #2&Btr	**$**	**402**	$	285
2x10 #2&Btr	**$**	**386**	$	322

Southern Yellow Pine lumber prices saw more modest increases, as improved demand was met in part by increased domestic production. The Random Length SYP East 2x4 #2 price was up US$31 per Mfbm, or 7%, compared to 2016, with a similar increase seen for 2x6 #2. Pricing for wider-width SYP lumber products saw more modest increases, with the exception of the SYP East 2x12 #2 price, which was down 2%, as highlighted in the following table:

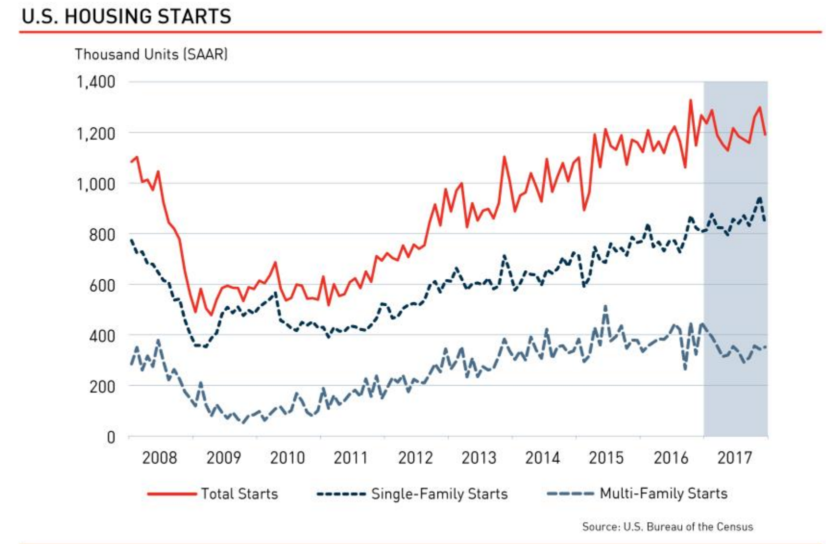
(Average SYP East US$ price, per thousand board feet) [1]		2017		2016
2x4 #2	**$**	**456**	$	425
2x6 #2	**$**	**377**	$	343
2x8 #2	**$**	**358**	$	337
2x10 #2	**$**	**379**	$	369
2x12 #2	**$**	**456**	$	467

US housing starts averaged 1,207,000 units[2] in 2017, an increase of 3% from 2016, and the highest annual average since 2007 (Chart 1). Contributing to improved lumber demand was a significant increase in single-family unit starts, which consume a higher proportion of lumber, and were up 8% in 2017. Multi-family unit starts were moderately lower than 2016.

[1] Random Lengths Publications, Inc.

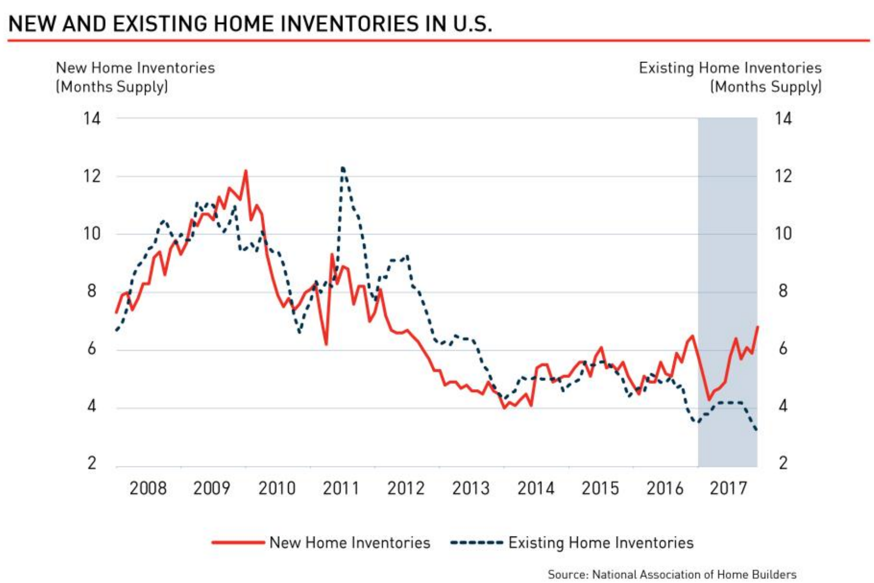
[2] Source: US Bureau of the Census

Chart 1



Despite a modest upward trend through 2017, new home inventory levels remained below normal historical levels, while existing home inventory decreased to historically low levels towards the end of the year (see Chart 2), with both metrics, along with new housing starts, highlighting the improving market fundamentals for the industry.

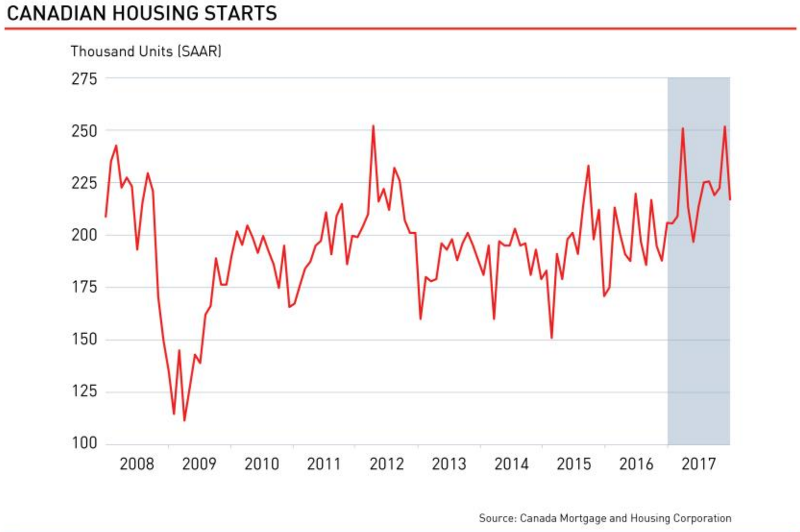
Chart 2



The Canadian housing market was strong through 2017, with housing starts at 220,000 units[3] in 2017, up 11% compared to 2016 (Chart 3), reflecting strength in the housing market across most regions through the year.

[3] Canada Mortgage and Housing Corporation ("CMHC")

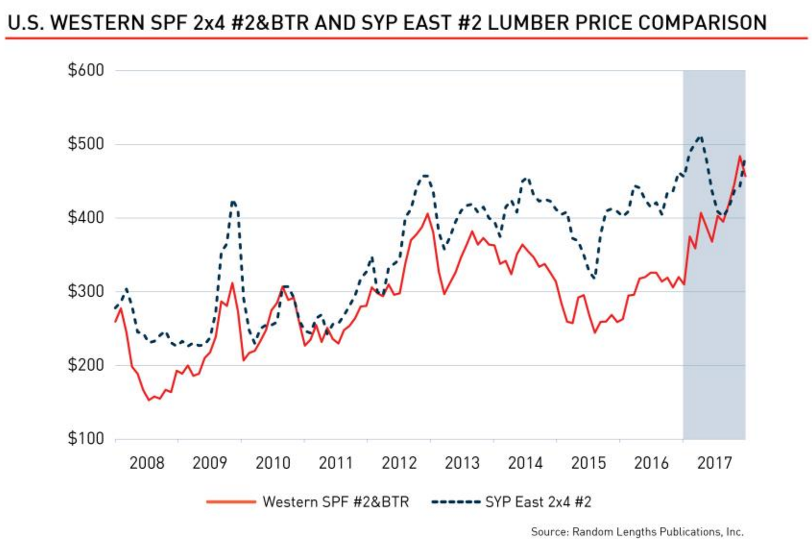
Chart 3



Canfor's lumber shipments to offshore markets were slightly higher than the prior year, with steady shipments to key offshore lumber markets reflecting strong demand, particularly for the Company's higher-value lumber products. The material change in the Company's geographical sales mix over the past ten years has enabled a more globally balanced distribution of sales in support of strategic growth objectives. Notwithstanding stronger US lumber demand in 2017 and the growth of the Company's US South lumber business in recent years, the Company's exposure to the US in 2017 remained well below where it was in 2007, with Western SPF lumber sales to North America over the last 10 years down approximately 16% principally as a result of the Company's development of new markets for its lumber products, particularly in China.

As previously mentioned, prices for Western SPF and SYP products trended up during 2017, supported by improving market fundamentals. The introduction of duties on Canadian lumber exports to the US market, in addition to temporary fire-related supply constraints, resulted in a narrowing of the historical spread between the prices of SYP East 2x4 #2 and Western SPF 2x4 #2&Btr lumber products in 2017 (see Chart 4).

Chart 4



The Canadian dollar strengthened against the US-dollar in 2017, averaging $0.770[4] per US-dollar, 2 cents, or 2%, higher than in 2016, modestly impacting unit sales realizations for all Canadian-produced exports.

[4] Bank of Canada

(ii) Pulp

Global pulp market conditions were better than anticipated in 2017, particularly in the second half of the year. Against a backdrop of solid global demand and various unforeseen global supply disruptions, the Chinese government's decision to restrict imports of recycled mixed paper caught the market off-guard and led to domestic buyers increasing their demand for virgin pulp on short notice. As a result of this spike in demand, benchmark NBSK pulp list prices to China climbed US$225 per tonne between August and December to reach a six-year high at the end of 2017. For the 2017 year as a whole, the China list price averaged US$712 per tonne[5], up US$113 per tonne, or 19%, from 2016; transaction prices to North America and Europe saw more modest gains.

Overall, global shipments of bleached softwood kraft pulp saw modest increases in 2017 compared to 2016. Global softwood pulp producer inventories increased in the first quarter of 2017 with limited industry maintenance downtime, then fell through the spring maintenance period in the second quarter of 2017, and remained within the balanced range of 27-30 days through the second half of 2017.

The following charts show the NBSK pulp list price movements in 2017, before taking account of customer discounts and rebates (Chart 5), and the global pulp inventory levels (Chart 6).

Chart 5

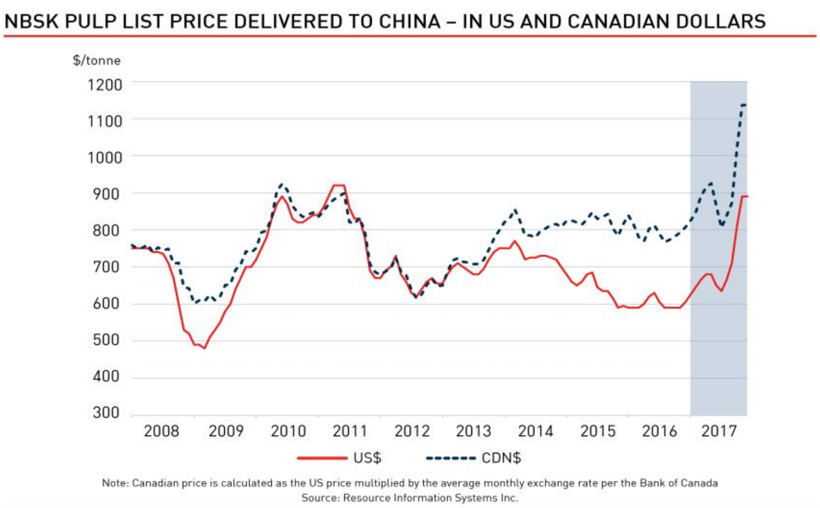
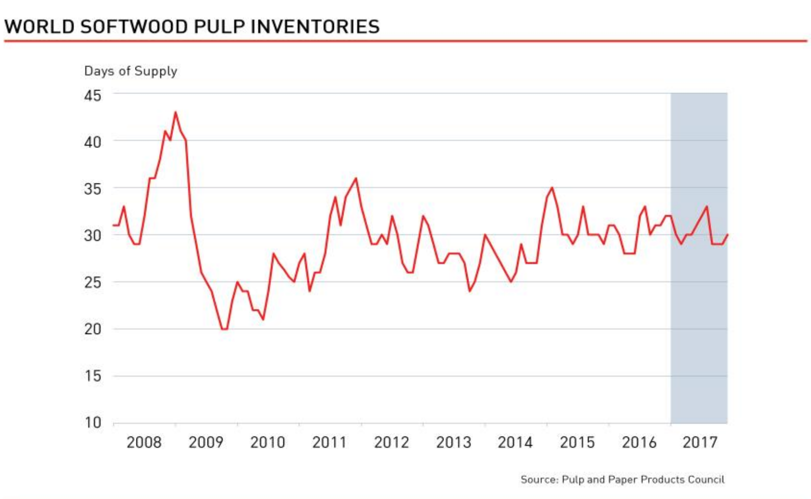


Chart 6



[5] Resource Information Systems, Inc.

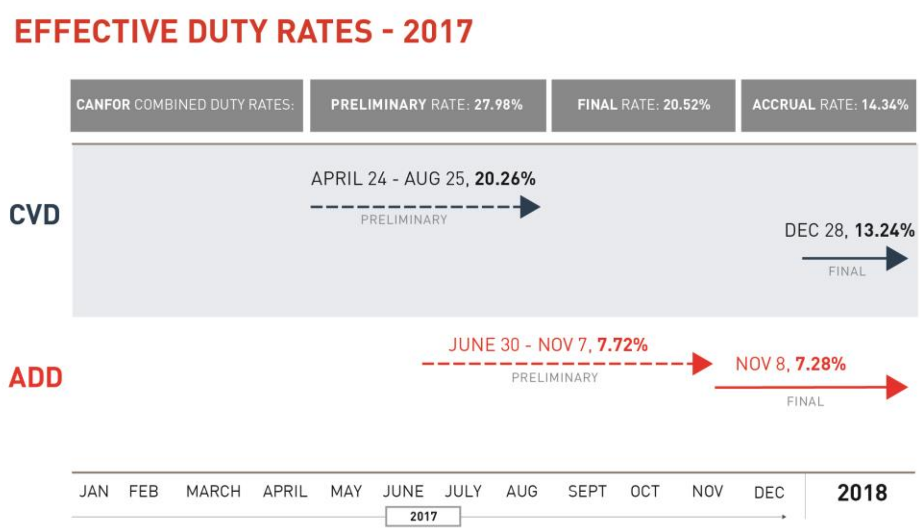
CPPI's sales network represents and co-markets UPM-Kymmene ("UPM") pulp products in North America, Japan and Korea, while UPM's pulp sales network represents and co-markets CPPI's products in Europe and China, as part of a strategic sales and marketing cooperation agreement. This arrangement continues to work well for both parties, allowing both CPPI and UPM to sell a broader offering of pulp products and enhanced technical service to customers.

Countervailing and Anti-dumping Duties

In 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. As a result of the DOC's investigation, preliminary countervailing duties ("CVD") of 20.26% were imposed on the Company's lumber exports to the United States from April 28, 2017 to August 25, 2017, with an additional anti-dumping duty ("ADD") of 7.72% effective on US-bound shipments beginning June 30, 2017. Final countervailing and anti-dumping duty determinations were announced by the DOC on November 2, 2017, while the ITC issued an affirmative determination of injury on December 7, 2017. As a result, Canfor was issued a final ADD rate of 7.28%, and was subject to countervailing duties on Canadian lumber exports destined to the US at a reduced rate of 13.24%, effective December 28, 2017. The final rates as determined by the DOC were based on sales and cost data from the 2015 year for CVD, and sales and cost data from the fourth quarter of 2015 to third quarter of 2016 for ADD. Notwithstanding the final rates established in the DOC's investigation, the final liability for the assessment of CVD and ADD will not be determined until an official administrative review of the respective period is complete. The first period of review will be based on sales and cost data from April 2017 to December 2018, and is currently anticipated to be completed in 2020.

Cash deposits are required at the published CVD and ADD rates as determined by the DOC (see Chart 7), resulting in cash deposits paid of $89.2 million in 2017. While Canfor continues to categorically deny the US allegations and strongly disagrees with the current countervailing and anti-dumping determinations made by the DOC, it has updated its estimated ADD rate by applying the DOC's methodology to current sales and cost data (from April 2017 to December 2017), resulting in an ADD accrual rate of 1.1%. Accordingly, Canfor recorded a countervailing and anti-dumping duty expense at a combined rate of 14.34%, which resulted in a net expense of $44.3 million being recorded in 2017. Canada has proceeded with legal challenges under NAFTA and through the WTO, where Canadian litigation has proven successful in the past.

Chart 7



Solid Wood Operations

The Company's confidence in the longer-term prospects of the lumber industry has driven an investment strategy aimed at positioning itself as a top-quartile margin performer in the industry. In support of this objective, the Company has completed several targeted strategic capital initiatives at its sawmills since 2010, all aimed at enhancing the quality and value offering of products to its customers from a top-tier productivity and cost position. These strategic capital investments have been designed to capitalize on the Company's strong fibre positions in the BC Interior and the US South. Excluding acquisitions, capital spending in the lumber segment for 2017 totaled $163.6 million and included various smaller high-returning capital projects aimed at increasing drying capacity and productivity. An increasing proportion of capital was deployed in the US South in 2017, including major upgrades at the Company's sawmill operations in Arkansas, Alabama and Georgia. In October 2017, the Company announced a $160 million capital investment program focused on further enhancing the Company's high-value product offering through increasing drying capacity and sawmill and planer modernizations at several US South sawmill operations. This program, combined with the aforementioned new Greenfield sawmill operation in Washington, Georgia, will increase the Company's Southern Yellow Pine production capacity by 30%, to approximately 2.1 billion board feet by the end of 2019, enabling the Company to take further advantage of the strong operating margins in that region.

In Western Canada, the higher lumber prices in 2017 resulted in increased market-based stumpage, which along with increased pricing pressures on non-quota (purchased) timber, and various challenges presented by extreme weather and forest fires through much of the year, as well as a continued shift out of the Mountain Pine Beetle ("MPB") dominated log profile into greener fibre, resulted in material increases in log costs in 2017. Compared to 2016, this higher percentage of greener fibre, coupled with targeted capital spending, enabled the Company to produce significantly more higher-value products and less low-grade lumber, materially improving the financial margins from this fibre base. The Company's continued focus on high-value dimension and speciality products resulted in further grade and margin improvements in the US South, where log costs remained stable again in 2017, reflecting a strong supply of high-quality fibre in close proximity to Canfor's sawmills.

Recent forecasts have predicted that annual allowable harvest rates in the BC Interior could be reduced by upwards of 30% from current levels, as the degradation of pine timber resulting from the MPB infestation runs its full course. The Company has taken various steps in recent years to secure high-quality fibre and ensure the viability and competitiveness of its operations, and continues to focus on managing fibre costs through disciplined cost management, enhanced fibre utilization, and maximized residual fibre revenue. The Company remains focused on ensuring strong operational performance at all of its operations, with continuous improvement initiatives complementing and maximizing the benefits from capital upgrades.

Pulp and Paper Operations

Total pulp and paper production in 2017 was largely in line with 2016, while CPPI's energy business continued to increase its power generation, remaining focused on both expanding its power generating capability and improving its energy efficiency. During 2017, CPPI completed scheduled maintenance outages at its Northwood and Intercontinental NBSK pulp mills, as well as at its Taylor BCTMP mill (in the case of Taylor, this included preliminary work associated with the previously announced major energy project at that mill). During the fourth quarter of 2017, an unscheduled outage and subsequent repairs at the Northwood pulp mill, related to a tube leak in the facility's number five recovery boiler, resulted in a reduction in overall pulp production of approximately 11,000 tonnes.

Capital spending in the pulp and paper segment in 2017 totalled $83.1 million, and included the completion of several smaller high-return discretionary projects, as well as the commencement of the Taylor and Northwood pulp mill energy projects. Heading into 2018, both projects are progressing as planned, with the Taylor project currently estimated to commence ramp up in the latter part of 2018, and the Northwood project remaining on track to be commissioned in early 2019.

OVERVIEW OF CONSOLIDATED RESULTS – 2017 COMPARED TO 2016

Selected Financial Information and Statistics

(millions of Canadian dollars, except for per share amounts)		2017		2016
Sales	$	**4,658.8**	$	4,234.9
Operating income before amortization	$	**807.3**	$	548.4
Operating income	$	**557.4**	$	306.1
Net income	$	**393.6**	$	203.9
Net income attributable to equity shareholders of the Company	$	**345.4**	$	150.9
Net income per share attributable to equity shareholders of the Company, basic and diluted	$	**2.63**	$	1.14
ROIC – Consolidated[6]		**20.6%**		9.5%
Average exchange rate (US$/CDN$)[7]	$	**0.770**	$	0.755

[6] 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 year. Invested capital is equal to capital assets, plus long-term investments and net non-cash working capital, all excluding minority interest components.
[7] Source – Bank of Canada (monthly average for the period).

(millions of Canadian dollars)		2017		2016
Operating income (loss) by segment:				
Lumber	$	**441.9**	$	237.4
Pulp and Paper	$	**154.6**	$	98.2
Unallocated and Other	$	**(39.1)**	$	(29.5)
Total operating income	$	**557.4**	$	306.1
Add: Amortization[8]	$	**249.9**	$	242.3
Total operating income before amortization	$	**807.3**	$	548.4
Add (deduct):				
Working capital movements	$	**(72.1)**	$	101.0
Defined benefit plan contributions	$	**(28.8)**	$	(33.3)
Income taxes paid, net	$	**(43.9)**	$	(29.9)
Adjustment to accrued duties[9]	$	**(44.9)**	$	-
Other operating cash flows, net[10]	$	**(7.5)**	$	(2.4)
Cash from operating activities	$	**610.1**	$	583.8
Add (deduct):				
Additions to property, plant and equipment, timber and intangible assets, net	$	**(252.1)**	$	(233.8)
Acquisitions, net of disposals	$	**(23.7)**	$	(83.9)
Share purchases	$	**(87.0)**	$	-
Acquisitions of non-controlling interests	$	**(17.7)**	$	(24.7)
Distributions paid to non-controlling interests	$	**(10.0)**	$	(28.5)
Finance expenses paid	$	**(21.1)**	$	(22.0)
Repayment of long-term debt, net	$	**(44.3)**	$	-
Advance to Licella	$	**-**	$	(7.0)
Other, net[10]	$	**5.4**	$	5.2
Change in cash / operating loans	$	**159.6**	$	189.1

[8] Amortization includes amortization of certain capitalized major maintenance costs.
[9] Adjusted to true-up preliminary countervailing and anti-dumping duty deposits expensed for accounting purposes in 2017 to current accrual rates.
[10] Further information on cash flows can be found in the Company's annual consolidated financial statements.

Analysis of Specific Items Affecting Comparability of Shareholder Net Income

After-tax impact, net of non-controlling interests (millions of Canadian dollars, except for per share amounts)		2017		2016
Shareholder Net Income, as reported	**$**	**345.4**	$	150.9
Foreign exchange gain on long-term debt	**$**	**(7.7)**	$	(3.6)
(Gain) loss on derivative financial instruments	**$**	**3.8**	$	(2.1)
Mill closure provisions recovery[11]	**$**	**(2.4)**	$	(1.5)
Countervailing and anti-dumping duty deposits[12]	**$**	**32.8**	$	-
Change in substantively enacted tax legislation[13]	**$**	**(5.1)**	$	-
Gain on sale of Anthony EACOM Inc.[14]	**$**	**(3.4)**	$	-
Gain on legal settlement[15]	**$**	**-**	$	(6.9)
Net impact of above items	**$**	**18.0**	$	(14.1)
Adjusted shareholder net income	**$**	**363.4**	$	136.8
Shareholder net income per share (EPS), as reported	**$**	**2.63**	$	1.14
Net impact of above items per share	**$**	**0.14**	$	(0.11)
Adjusted shareholder net income per share	**$**	**2.77**	$	1.03

[11]In 2015, Canfor recorded one-time costs of $19.4 million (before tax) associated with the announced closure of the Canal Flats sawmill. In 2017, $3.2 million (before-tax) of the closure provision was reversed (2016: $2.0 million), reflecting lower than estimated costs.
[12]Adjusted for countervailing and anti-dumping duty deposits expensed for accounting purposes in 2017.
[13]The Company recorded a $5.1 million decrease, net of minority interest, in deferred tax balances as a result of legislative changes in both Canada and the US in 2017.
[14]In 2017, Canfor sold its 50% interest in Anthony EACOM Inc. for net proceeds of $21.1 million and recognized a $3.7 million gain (before-tax).
[15]Gain relates to a $16.3 million settlement of a legal claim with respect to logistics services, net of a $0.8 million impairment of related machinery and equipment and minority interest.

The Company recorded net income attributable to equity shareholders of $345.4 million, or $2.63 per share, for the year ended December 31, 2017, an increase of $194.5 million, or $1.49 per share, from $150.9 million, or $1.14 per share, reported for the year ended December 31, 2016. After taking account of specific items affecting comparability with prior periods, the Company's 2017 adjusted shareholder net income was $363.4 million, or $2.77 per share, up $226.6 million, or $1.74 per share, compared to similarly adjusted shareholder net income of $136.8 million, or $1.03 per share, for 2016.

Reported operating income for 2017 was $557.4 million, up $251.3 million from operating income of $306.1 million for 2016, with the increase reflecting higher operating earnings in both the lumber and pulp and paper segments. Lumber segment results reflected the benefit of significantly higher Western SPF lumber US-dollar prices, modest increases in SYP lumber prices and a higher-value sales mix, all of which more than offset the slightly stronger dollar, duty expenses and higher unit log costs. In the pulp and paper segment, operating income largely reflected higher US-dollar NBSK pulp and BCTMP list prices, which more than offset the 2% stronger Canadian dollar and increased fibre (market-driven), chemical and energy costs.

A more detailed review of the Company's operational performance and results is provided in the "Operating Results by Business Segment – 2017 compared to 2016" section, which follows this overview of consolidated results.

OPERATING RESULTS BY BUSINESS SEGMENT – 2017 COMPARED TO 2016

The following discussion of Canfor's operating results relates to the operating segments and the non-segmented items as per the Segmented Information note in the Company's consolidated financial statements.

Canfor's operations include the Lumber and Pulp and Paper segments. The results of the panels business are included in the Unallocated & Other segment.

Lumber

Selected Financial Information and Statistics – Lumber

Summarized results for the Lumber segment for 2017 and 2016 are as follows:

(millions of Canadian dollars, unless otherwise noted)	2017	2016
Sales	**$ 3,461.1**	$ 3,133.2
Operating income before amortization	**$ 617.4**	$ 401.8
Operating income, as reported	**$ 441.9**	$ 237.4
Countervailing and anti-dumping duties	**$ 44.3**	$ -
Mill closure provisions recovery	**$ (3.2)**	$ (2.0)
Gain on legal settlement, net	**$ -**	$ (15.5)
Adjusted operating income	**$ 483.0**	$ 219.9
Capital expenditures	**$ 163.6**	$ 168.8
Average SPF 2x4 #2&Btr lumber price in US$[16]	**$ 401**	$ 305
Average SPF price in Cdn$	**$ 521**	$ 404
Average SYP 2x4 #2 lumber price in US$[17]	**$ 456**	$ 425
US housing starts (thousand units SAAR) [18]	**1,207**	1,177
Production – SPF lumber (MMfbm)[19]	**3,744.2**	3,786.8
Production – SYP lumber (MMfbm)[19]	**1,410.9**	1,335.6
Shipments – SPF lumber (MMfbm)[20]	**3,831.6**	3,932.0
Shipments – SYP lumber (MMfbm)[20]	**1,399.7**	1,377.4

[16] Western Spruce/Pine/Fir, per thousand board feet (Source – Random Lengths Publications, Inc.).
[17] Southern Yellow Pine, Eastside, per thousand board feet (Source – Random Lengths Publications, Inc.).
[18] Source – US Census Bureau, seasonally adjusted annual rate ("SAAR").
[19] Excluding production of trim blocks.
[20] Canfor-produced lumber, including lumber purchased for remanufacture and excluding trim blocks, excludes shipments of wholesale lumber.

Markets

North American lumber demand improved through 2017 reflecting the ongoing gradual recovery in the US housing market and improving repair and remodeling sector. US housing starts averaged 1,207,000 units in 2017, an increase of 3% from 2016, and the highest annual average since 2007. Contributing to improved lumber demand was a 8% increase in single-family starts from the previous year. Multi-family starts were down 10% compared to 2016 (single-family homes consume approximately three times more lumber than multi-family homes). Canadian housing construction activity was strong during 2017, up 11% compared to the previous year, at an average of 220,000 units on a seasonally adjusted basis. Offshore lumber demand remained strong through 2017, particularly for the Company's higher-value lumber products, with steady shipment volumes to China and Japan and other key markets through 2017.

In addition to solid underlying North American and offshore demand, the imposition of countervailing and anti-dumping duties, as well as limited available supply due to the severe forest fire season in Western Canada, resulted in significantly higher average Western SPF lumber prices through the year. The North American benchmark Western SPF 2x4 #2&Btr lumber price was up US$96 per Mfbm, or 31%, compared to 2016, while the Western SPF 2x6 #2&Btr lumber price was up US$117 per Mfbm, or 41%. Southern Yellow Pine lumber prices saw more modest increases, as improved demand was offset in part by increased production volumes across the US South region. The Random Length SYP East 2x4 #2 price was up US$31 per Mfbm, or 7%, compared to 2016 with a similar increase seen for 2x6 #2, while pricing for wider-width SYP lumber products saw more modest increases.

Sales

Lumber segment revenues of approximately $3.5 billion for 2017 were up 10% compared to 2016, reflecting higher Western SPF unit sales realizations, and modestly higher SYP unit sales realizations. Increased lumber unit sales realizations were offset, in part, by slightly lower shipment volumes in the current year, reflecting weather-related transportation challenges in late 2017 and, to a lesser extent, slightly lower residual fibre revenue in the US South.

Total lumber shipments were approximately 5.2 billion board feet for the year, down 2% from 5.3 billion board feet shipped in the previous year, as slightly higher shipments in the US South were more than offset by lower shipments in Western Canada as a result of the aforementioned weather challenges.

Western SPF lumber unit sales realizations showed a solid increase compared to the prior year as higher average benchmark lumber prices and a higher-value sales mix more than offset the impact of a 2 cent, or 2%, stronger Canadian dollar, and the introduction of countervailing and anti-dumping duties in the current year. As previously mentioned, a continued focus on high-value products, coupled with an increasing proportion of greener fibre and benefits of recent capital expenditures, resulted in the Company producing less low grade products in 2017. Offshore sales realizations were also higher than 2016 reflecting improved lumber pricing, and the higher-value sales mix.

Total residual fibre revenue for 2017 was slightly lower than the prior year as increased pricing for sawmill residual chips in Western Canada was more than offset by the dampening effects of increased supply on residual chip prices in the US South. Pellet revenue was slightly higher than the prior year following the ramp up of the Fort St. John and Chetwynd pellet plants in 2016.

Operations

Total lumber production for 2017 was 5.2 billion board feet, in line with the prior year, as moderately higher production at the Company's US South sawmill operations following several capital upgrades was partially offset by lower production in Western Canada. As previously highlighted, significant challenges and disruptions presented by weather and the BC Interior forest fires, impacted log deliveries, log profile and drying capacity in Western Canada through much of the year. These challenges resulted in lower productivity in 2017, offsetting the benefits realized from capital upgrades.

Lumber unit manufacturing costs increased compared to the previous year as the benefit of improved productivity and stable log costs in the US South mitigated upward pressure on unit log costs in Western Canada. Higher Western SPF lumber sales realizations resulted in increased market-based stumpage, while the aforementioned weather and fire-related challenges resulted in increased competition for purchased wood, increased log hauling costs and lower log deliveries in Western Canada. Unit cash conversion costs increased slightly, as productivity improvements in the US South and disciplined cost management helped to offset the challenging operating conditions in Western Canada.

Pulp and Paper

Selected Financial Information and Statistics – Pulp and Paper[21]

Summarized results for the Pulp and Paper segment for 2017 and 2016 are as follows:

(millions of Canadian dollars, unless otherwise noted)		**2017**		2016
Sales	**$**	**1,197.7**	$	1,101.7
Operating income before amortization[22]	**$**	**229.0**	$	172.0
Operating income	**$**	**154.6**	$	98.2
Capital expenditures	**$**	**83.1**	$	64.0
Average NBSK pulp price delivered to China - US$[23]	**$**	**712**	$	599
Average NBSK pulp price delivered to China - Cdn$	**$**	**925**	$	794
Production – pulp (000 mt)		**1,205.0**		1,217.9
Production – paper (000 mt)		**138.0**		135.8
Shipments – pulp (000 mt)		**1,216.4**		1,201.5
Shipments – paper (000 mt)		**139.0**		142.5

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

Markets

As mentioned above, overall global pulp demand in 2017 was unexpectedly strong, particularly in the second half of the year, driven in part by China and its new regulations restricting the import of recycled mixed paper. Despite the additional capacity that came on-line in 2017, unforeseen global pulp supply disruptions led to less capacity being available for global pulp markets. These factors resulted in significant upward pressure on average pulp list prices most notably in the latter part of the year. For the year as a whole, global shipments of bleached softwood kraft pulp saw modest increases in 2017 compared to 2016, primarily to Asian markets (including China), and North America[24]. Bleached kraft paper markets were balanced throughout 2017.

At the end of December 2017, World 20[25] producers of bleached softwood pulp inventories were within the balanced range, at 30 days' supply. By comparison, December 2016 inventories were at 32 days' supply. Market conditions are generally considered balanced when inventories are in the 27-30 days of supply range.

Sales

Pulp shipments in 2017 were 1,216,400 tonnes, in line with 2016.

As previously mentioned, China US-dollar NBSK pulp list prices averaged US$712 per tonne in 2017, up US$113 per tonne, or 19% compared to 2016. Consequently, average NBSK pulp unit sales realizations saw solid increases year over year, principally reflecting the increase in US-dollar pricing, which more than offset increases in customer discounts, the 2% stronger Canadian dollar and a lag in the timing of shipments (versus orders). Average BCTMP unit sales realizations were notably higher in 2017 compared to the previous year, reflecting strong BCTMP demand and US-dollar pricing throughout most of the 2017 year, partially offset by the stronger Canadian dollar.

In 2017, energy revenue was up compared to the prior year, primarily reflecting higher energy pricing combined with stronger power generation, particularly over the winter months, which more than offset operational challenges at the Northwood NBSK pulp mill in the fourth quarter of 2017.

Paper shipments in 2017 were broadly in line with 2016 at 139,000 tonnes. Prime bleached paper shipments represented 88% of prime sales volumes in 2017, up 2% from 2016. Paper unit sales realizations for 2017 were broadly in line with 2016, reflecting the improvement in US-dollar kraft paper prices as well as the proportionately higher prime bleached shipments, offset by the unfavourable impact of the stronger Canadian dollar.

[24] As reported PPPC statistics.

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

Operations

Pulp production in 2017, at 1,205,000 tonnes, was broadly in line with that produced in 2016, with total pulp production comparable year-over-year after adjusting for scheduled and unplanned maintenance outages. In 2017, CPPI completed scheduled outages at its Northwood and Intercontinental NBSK pulp mills, as well as at its Taylor BCTMP mill, which, in part, included preliminary work associated with the previously announced energy project at that mill. During the fourth quarter of 2017, an unscheduled outage and subsequent repairs at the Northwood pulp mill, related to a tube leak in the facility's number five recovery boiler, resulted in a reduction in overall pulp production of approximately 11,000 tonnes.

Pulp unit manufacturing costs modestly increased when compared to 2016, reflecting moderately higher fibre costs, combined with a significant increase in chemical costs and, to a lesser extent, higher energy costs. The increase in fibre costs compared to 2016 reflected higher market prices for delivered sawmill residual chips (linked to Canadian dollar NBSK pulp sales realizations) combined with a marginal increase in the proportion of higher-cost whole log chips.

Paper production in 2017 was 138,000 tonnes, up 2,200 tonnes, or 2%, from 2016, as a slight decline in operating rates was more than offset by the favourable impact on paper production of no scheduled maintenance outages in 2017 (in 2016, scheduled maintenance outages reduced paper production by approximately 5,100 tonnes). Paper unit manufacturing costs were moderately higher compared to 2016, largely reflecting a significant increase in slush pulp costs (linked to higher Canadian dollar NBSK market pulp prices) and, to a lesser extent, higher routine maintenance spend in 2017, offset in part by the favourable impact of increased paper production in the current year.

Unallocated and Other Items

(millions of Canadian dollars)		**2017**		2016
Operating loss of Panels operations[26]	**$**	**(2.4)**	$	(2.0)
Corporate costs	**$**	**(36.7)**	$	(27.5)
Finance expense, net	**$**	**(30.8)**	$	(32.8)
Foreign exchange gain on long-term debt	**$**	**8.8**	$	4.1
Gain (loss) on derivative financial instruments	**$**	**(5.2)**	$	2.9
Other expense, net	**$**	**(3.8)**	$	(12.5)

[26] 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

Corporate costs, which comprise corporate, head office and general and administrative expenses, were $36.7 million in 2017, up $9.2 million from 2016, largely due to higher legal costs related to the expiry of the Softwood Lumber Agreement which more than offset the benefit of cost reductions realized in the current year.

Finance Income and Expense

Net finance expense for 2017 was $30.8 million, down $2.0 million from 2016. The decrease largely reflected lower amounts drawn on the Company's operating loans in 2017. See the "Liquidity and Financial Requirements" section for further discussion.

Foreign Exchange Gain on Translation of Long-Term Debt

In 2017, the Company recognized a foreign exchange gain of $8.8 million on its US-dollar term debt held by Canadian entities due to the stronger Canadian dollar at the close of 2017 relative to the exchange rate at the close of 2016 (see further discussion on term debt in the "Liquidity and Financial Requirements" section).

Gain (Loss) on Derivative Financial Instruments

The Company uses a variety of derivative financial instruments as partial economic hedges against unfavourable changes in lumber prices, energy costs, and interest rates.

In 2017, the Company recorded a net loss of $5.2 million (2016: net gain of $2.9 million) related to its derivative financial instruments, which largely reflected realized losses on its lumber future hedge position arising from the escalation in market prices in 2017.

The following table summarizes the amounts of the various components for the comparable periods. Additional information on the derivative financial instruments in place at year end can be found in the "Liquidity and Financial Requirements" section, later in this document.

(millions of Canadian dollars)	2017	2016
Lumber Futures	**$ (4.7)**	$ 3.5
Energy derivatives	**$ (0.5)**	$ (0.8)
Interest rate swaps	**$ -**	$ 0.2
Gain (loss) on derivative financial instruments	**$ (5.2)**	$ 2.9

Other Expense, net

Other expense, net in 2017 of $3.8 million principally reflected foreign exchange movements on US-dollar denominated cash, receivables and payables of Canadian operations, offset in part by a $3.7 million gain recorded on the Company's sale of its 50% interest in Anthony EACOM Inc. during the year. Other expense, net in 2016 of $12.5 million principally reflected CPPI's write-down of research and development related advances to Licella and a loss relating to foreign exchange movements on US-dollar denominated cash, receivables and payables of Canadian operations.

Income Tax Expense

The Company recorded an income tax expense of $132.8 million in 2017, compared to $63.9 million in 2016, with an overall effective tax rate of 25% (2016 - 24%).

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

(millions of Canadian dollars)	2017	2016
Net income before income taxes	**$ 526.4**	$ 267.8
Income tax expense at statutory rate of 26%	**$ (136.9)**	$ (69.6)
Add (deduct):		
Non-taxable income related to non-controlling interests	**0.4**	6.7
Entities with different income tax rates and other tax adjustments	**(1.9)**	(0.4)
Permanent difference from capital gains and losses and other non-deductible items	**1.8**	(0.6)
Change in substantively enacted legislation	**3.8**	-
Income tax expense	**$ (132.8)**	$ (63.9)

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

Other Comprehensive Income (Loss)

(millions of Canadian dollars)	2017	2016
Defined benefit plan actuarial gains (losses), net of tax	**$ 19.1**	$ (37.7)
Foreign exchange translation differences for foreign operations, net of tax	**(33.8)**	(11.1)
Other comprehensive income (loss), net of tax	**$ (14.7)**	$ (48.8)

Canfor measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at December 31 of each year. Any actuarial gains or losses which arise are recognized immediately by means of a credit or charge through other comprehensive income. For 2017, an after-tax gain of $19.1 million was recorded to other comprehensive income, as losses on the Company's defined benefit post-employment compensation plans were more than offset by gains on other non-pension post-employment benefits. The loss associated with the defined benefit post-employment compensation plans largely reflected a lower discount rate used to value the net defined benefit obligation, offset in part by the return generated on plan assets. The gain related to the non-pension post-employment benefits principally reflected a 50% reduction in Medical Services Plan ("MSP") premiums following a change in legislation in British Columbia, and to a lesser extent, a reduction in the MSP growth trend rate used to value the obligation, offset in part by a 0.5% lower discount rate.

In 2017, the Company purchased $136.3 million of buy-in annuities through its defined benefit pension plans, increasing total annuities purchased to $422.9 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 $4.9 million related to the purchase were recognized in other comprehensive income (loss), principally reflecting the difference between the annuity rate compared to the discount rate used to value the obligations on a going concern basis.

When taking into account the impact of hedging, 46% of the change to the defined benefit pension plans 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 10% is partially hedged through the plan's investment in debt securities.

In 2016, an after-tax loss of $37.7 million was recorded to other comprehensive income, primarily reflecting a lower discount rate used to value the net defined benefit obligation. For more information, see the "Employee Future Benefits" part of the "Critical Accounting Estimates" section later in this report.

In addition, the Company recorded a loss after-tax of $33.8 million to other comprehensive income in 2017 related to foreign exchange differences for foreign operations, resulting from the strengthening of the Canadian dollar at the end of 2017 compared to one-year earlier. This compared to an after-tax loss of $11.1 million in 2016 due to a stronger Canadian dollar relative to its US counterpart.

SUMMARY OF FINANCIAL POSITION

The following table summarizes Canfor's financial position as at December 31, 2017 and 2016:

(millions of Canadian dollars, except for ratios)		**2017**		**2016**
Cash and cash equivalents	**$**	**288.2**	$	156.6
Operating working capital		**448.5**		418.2
Current portion of deferred reforestation		**(49.5)**		(48.5)
Net working capital		**687.2**		526.3
Property, plant and equipment		**1,438.1**		1,460.8
Timber licenses		**518.3**		532.7
Goodwill and other intangible assets		**228.1**		238.8
Retirement benefit surplus		**7.9**		5.9
Long-term investments and other		**83.3**		50.7
Forward purchase liability		**-**		(41.7)
	$	**2,962.9**	$	2,773.5
Long-term debt	**$**	**385.4**	$	448.0
Retirement benefit obligations		**272.0**		302.2
Deferred reforestation obligations (long-term portion)		**63.0**		56.9
Other long-term liabilities		**23.7**		23.7
Deferred income taxes, net		**217.8**		204.2
Non-controlling interests		**269.6**		254.8
Equity attributable to shareholders of Company		**1,731.4**		1,483.7
	$	**2,962.9**	$	2,773.5
Ratio of current assets to current liabilities		**2.3 : 1**		2.0 : 1
Net debt to total capitalization		**4.6%**		15.5%

The ratio of current assets to current liabilities at the end of 2017 was 2.3:1 compared to 2.0:1 at the end of 2016, and largely reflected the Company's improved cash at December 31, 2017 compared to December 31, 2016.

The Company's net debt to capitalization was 4.6% at December 31, 2017 (December 31, 2016: 15.5%), primarily reflecting the Company's strong cash earnings and debt reduction focus in 2017.

CHANGES IN FINANCIAL POSITION

At the end of 2017, Canfor had $288.2 million of cash and cash equivalents.

(millions of Canadian dollars)	2017	2016
Cash generated from (used in)		
Operating activities	**$ 610.1**	$ 583.8
Financing activities	**(207.6)**	(205.2)
Investing activities	**(266.4)**	(317.8)
Increase in cash and cash equivalents[27]	**$ 136.1**	$ 60.8

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

The changes in the components of these cash flows during 2017 are discussed in the following sections.

Operating Activities

Canfor generated cash from operations of $610.1 million for the 2017 year, up $26.3 million from cash generated of $583.8 million in the previous year. The increase in operating cash flows largely reflected an increase in cash earnings in the current year, offset in part by increased lumber inventories at the end of the year as a result of weather-related transportation challenges, and increased income tax payments during 2017.

Financing Activities

Financing activities in 2017 used net cash of $207.6 million compared to cash used of $205.2 million in 2016. The Company had no balance outstanding on its Canadian operating loan facility at the end of 2017, reflecting a decrease of $28.0 million from the end of 2016. During the current year, the Company obtained $6.0 million in net financing related to certain capital projects at its US sawmills, while CPPI made an early repayment of its $50.0 million term debt (see "Liquidity and Financial Requirements" section for more details). The Company made cash distributions of $10.0 million to non-controlling shareholders in 2017, down $18.5 million from 2016 following the completion of the Company's phased acquisitions in the US South.

Cash used for financing activities also included share purchases under Canfor's and CPPI's Normal Course Issuer Bids. In 2017, Canfor purchased 4,159,593 common shares for $90.7 million, of which $87.0 million was paid in the year (average price of $21.81 per common share). Under a separate normal course issuer bid, CPPI purchased 1,448,109 common shares from non-controlling shareholders for $17.8 million (average price of $12.29 per common share). During 2016, Canfor did not purchase any common shares, while CPPI purchased 2,252,504 common shares from non-controlling shareholders for $24.4 million. See further discussion of the shares purchased under the Normal Course Issuer Bid in the following "Liquidity and Financial Requirements" section.

Investing Activities

In 2017, the Company used net cash for investing activities of $266.4 million, compared to $317.8 million in 2016. Additions to property, plant and equipment totaled $252.1 million, up $18.3 million from 2016. In the lumber segment, capital spending of $163.6 million 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 costs related to upgrades at the Company's sawmills in Arkansas, Georgia and Alabama. In the pulp and paper segment, capital expenditures of $83.1 million were associated with several capital projects including the previously announced Northwood and Taylor energy projects, as well as maintenance of business and other improvement projects.

As previously highlighted, during 2017, the Company completed the final phase of the acquisition of Beadles & Balfour, increasing its ownership interest from 55% to 100% for cash consideration of $41.8 million. Investing activities in 2017 also included final payments of $18.0 million related to the Company's acquisition (in April 2016) of Wynndel Box and Lumber Ltd. ("Wynndel"), net proceeds of $21.1 million related to the sale of the Company's 50% investment in Anthony EACOM Inc., and proceeds of $15.0 million related to the July 2015 sale of the Company's investment in Lakeland Mills Ltd. and Winton Global Ltd. Investing activities in 2016 included a $61.6 million payment related to the Company's final instalment on its phased acquisition of Scotch & Gulf Lumber, LLC, and a payment of $22.3 million related to the Wynndel acquisition.

LIQUIDITY AND FINANCIAL REQUIREMENTS

Operating Loans

At December 31, 2017, the Company on a consolidated basis had cash of $288.2 million, no amounts drawn on its operating loans, and an additional $53.2 million reserved for several standby letters of credit. Total available undrawn operating loans at year end were $456.8 million.

Excluding CPPI, the Company's bank operating loans at December 31, 2017 totaled $350.0 million, of which no amounts were drawn, and an additional $44.0 million was reserved for several standby letters of credit, the majority of which related to unregistered pension plans. In 2017, the Company's principal operating loans, excluding CPPI, were extended to September 28, 2022. Interest is payable on the operating loans at floating rates based on the lenders' Canadian prime rate, bankers' acceptances, US-dollar base rate or US-dollar LIBOR rate, plus a margin that varies with the Company's debt to total capitalization ratio.

At December 31, 2017, CPPI had an undrawn $110.0 million bank loan facility with a maturity date of January 31, 2020 and $9.2 million in letters of credit outstanding under the operating loan facility.

Term Debt

During 2017, the Company extended the maturity date on its Canadian dollar denominated $125.0 million term loan from September 28, 2020 to September 28, 2022, and extended the maturity date on its US-dollar denominated $100.0 million floating rate term loan from September 28, 2023 to September 28, 2025. In 2017, the Company obtained $4.3 million (US$3.4 million) in net financing at an interest rate of 1.3% related to certain capital projects at its US sawmills. On December 29, 2017, CPPI repaid the full principal balance of its term debt of $50.0 million.

Debt Covenants

Canfor has certain financial covenants on its debt obligations that stipulate maximum debt to total capitalization ratios. The debt to total capitalization is calculated by dividing total debt by shareholders' equity plus total debt. Debt obligations are held by various entities within the Canfor group and the individual debt agreements specify the entities within the group that are to be included in the covenant calculations.

In circumstances when debt to total capitalization exceeds a certain threshold, Canfor is subject to an interest coverage ratio that requires a minimum amount of earnings before interest, taxes, depreciation and amortization relative to net interest expense. Canfor is not currently subject to this test.

Provisions contained in Canfor's long-term borrowing agreements also limit the amount of indebtedness that the Company may incur and the amount of dividends it may pay on its common shares. The amount of dividends the Company is permitted to pay under its long-term borrowing agreements is determined by reference to consolidated net earnings less certain restricted payments.

Management reviews results and forecasts in monitoring the Company's compliance with these covenant requirements. Canfor was in compliance with all its debt covenants for the year ended December 31, 2017.

Substantially all borrowings of CPPI's operating loan are non-recourse to other entities within the Company.

Normal Course Issuer Bid

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. In 2017, Canfor purchased 4,159,593 common shares for $90.7 million (an average of $21.81 per common share). In 2016, Canfor did not purchase any common shares. Under a separate normal course issuer bid, CPPI in 2017 purchased common shares from non-controlling shareholders increasing Canfor's ownership of CPPI from 53.6% at December 31, 2016 to 54.8% at December 31, 2017.

2018 Projected Capital Spending and Debt Repayments

Based on its current outlook, assuming no deterioration in market conditions during the year, the Company anticipates it will invest approximately $430.0 million in 2018 in capital projects, which will consist primarily of various improvement projects and maintenance of business expenditures, with proportionately more capital being allocated to the Company's growth in its US South lumber business, including anticipated spend in 2018 related to the announced state-of-the-art Greenfield sawmill. There are no scheduled long-term debt payments in 2018. Canfor has sufficient liquidity in its cash reserves and operating loans to finance its planned capital expenditures as required during 2018.

Derivative Financial Instruments

As at December 31, 2017, the Company had the following derivatives:

a. Futures contracts for the sale of lumber with a total notional amount of 24.3 MMfbm. There were unrealized losses of $0.3 million at December 31, 2017 on these contracts.

	As at December 31, 2017	
	Notional Amount	**Average Rate**
Lumber	(MMfbm)	(US-dollars per Mfbm)
Futures sales contracts *0 – 12 months*	**24.3**	**$436.41**

b. Canfor uses interest rate swaps to reduce its exposure to interest rate risk associated with financial obligations bearing variable interest rates. At December 31, 2017 the Company had no interest rate swaps outstanding.

c. In 2017, Canfor entered into a commodity swap transaction to transfer 61,320 megawatt hours ("MWh") at a rate of $46.25 per MWh, effective January 1, 2018 through December 31, 2018. There were unrealized losses of $0.5 million related to this contract at December 31, 2017.

d. Canfor, at times, uses Brent oil and Western Texas Intermediate ("WTI") oil contracts as a proxy to hedge its diesel purchases. At December 31, 2017 the Company had no oil collars outstanding.

Commitments and Subsequent Events

The following table summarizes Canfor's financial contractual obligations at December 31, 2017 for each of the next five years and thereafter:

(millions of Canadian dollars)	2018	2019	2020	2021	2022	Thereafter	Total
Long-term debt obligations	$ 0.3	$ -	$ 4.3	$ -	$ 126.0	$ 255.1	$ 385.7
Operating leases	12.2	9.3	6.7	4.3	3.4	6.6	42.5
	$ 12.5	$ 9.3	$ 11.0	$ 4.3	$ 129.4	$ 261.7	$ 428.2

Interest payments include interest of 4.4% on the Company's US$100.0 million term loan and interest of 1.3% on the Company's US$3.4 million debt to finance certain capital projects at its U.S. sawmills. Interest is also payable on floating rate debt, which depends on the lenders' Canadian prime rate or bankers' acceptance rate during the year of payment. Interest payments have been excluded from the above commitments.

Other contractual obligations not included in the table above or highlighted previously are:

- Contractual commitments totaling $54.1 million, which includes commitments for the construction of property, plant and equipment at the Company's sawmills.
- Purchase obligations and contractual obligations in the normal course of business. Purchase obligations of a more substantial dollar amount generally relate to the pulp business and are subject to "force majeure" clauses. In these instances, actual volumes purchased may vary significantly from contracted amounts depending on Canfor's requirements in any given year.
- Deferred reforestation, for which a liability of $112.5 million has been recorded at December 31, 2017. The reforestation liability is a fluctuating obligation, based on the area harvested. The future cash outflows are a

function of the actual costs of silviculture programs and of harvesting and are based on, among other things, the location of the harvesting and the activities necessary to adequately stock harvested areas and achieve a "free-to-grow" state.

- Obligations to pay pension and other post-employment benefits, for which the net liability for accounting purposes at December 31, 2017 was $264.1 million. As at December 31, 2017, Canfor estimated that it would make total contribution payments of $24.2 million to its defined benefit plans in 2018.
- CPPI has energy agreements with a BC energy company (the "Energy Agreements") for three of CPPI's mills. These agreements are for the commitment of electrical load displacement and the sale of incremental power from the CPPI's pulp and paper mills. These Energy Agreements include incentive grants from the BC energy company for capital investments to increase electrical generation capacity, and also call for performance guarantees to ensure minimum required amounts of electricity are generated, with penalty clauses if they are not met. As part of these commitments, CPPI has entered into standby letters of credit for these guarantees. The standby letters of credit have variable expiry dates, depending on the capital invested and the length of the Energy Agreement involved. As at December 31, 2017 the Company had posted $6.7 million of standby letters of credit under these agreements, and had no repayment obligations under the terms of any of these agreements.

TRANSACTIONS WITH RELATED PARTIES

The Company undertakes transactions with various related entities. These transactions are in the normal course of business and are generally on the same terms as those accorded to unrelated third parties, except where noted otherwise.

The Jim Pattison Group is Canfor's largest shareholder. During 2017, subsidiaries owned by the Jim Pattison Group provided lease, insurance and other services to Canfor totalling $5.3 million with $0.5 million outstanding at December 31, 2017.

During 2017, CPPI sold paper to subsidiaries owned by the Jim Pattison Group totalling $3.5 million. No amounts related to these sales were outstanding as at December 31, 2017.

Additional details on related party transactions are contained in Note 23 to Canfor's 2017 consolidated financial statements.

LICELLA PULP JOINT VENTURE

In May 2016, CPPI and Licella agreed to form a joint venture under the name Licella Pulp Joint Venture to investigate opportunities to integrate Licella's Catalytic Hydrothermal Reactor platform into CPPI's pulp mills to economically convert biomass into next generation biofuels and biochemicals. Licella is a subsidiary of Ignite Energy Resources Ltd. ("IER") an Australian energy technology development company. This additional residue stream refining would allow the Company to further optimize pulp production capacity. This agreement follows a successful program of preliminary trials conducted on feedstock from the Company at Licella's pilot plants located in New South Wales, Australia, in which wood residue streams from CPPI's kraft process were successfully converted into a stable biocrude oil. In conjunction with the joint venture agreement, CPPI provided a $7.0 million convertible credit facility to IER, the parent company of Licella, which matures on June 21, 2019. In 2016, the Company's net income included the pre-tax write-down of $7.0 million of advances made in connection with the biofuels initiative to Licella. Notwithstanding the future benefits that may result from this innovative effort, the write-down reflected the research and development nature of the advances.

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. During 2017, CPPI, together with its joint venture partner, Licella, has actively continued to evaluate and advance work associated with the feasibility study and risk reduction process for industrializing this biofuel and biochemical technology.

SELECTED QUARTERLY FINANCIAL INFORMATION

	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016	Q3 2016	Q2 2016	Q1 2016
Sales and income (millions of Canadian dollars)								
Sales	**$ 1,182.2**	**$ 1,165.2**	**$ 1,185.2**	**$ 1,126.2**	$ 1,043.5	$ 1,101.2	$ 1,022.3	$ 1,067.9
Operating income	**$ 214.2**	**$ 105.4**	**$ 131.0**	**$ 106.8**	$ 74.0	$ 97.4	$ 69.6	$ 65.1
Net income	**$ 152.6**	**$ 72.6**	**$ 90.9**	**$ 77.5**	$ 44.2	$ 66.4	$ 51.0	$ 42.3
Shareholder net income	**$ 131.8**	**$ 66.2**	**$ 81.3**	**$ 66.1**	$ 38.0	$ 50.9	$ 36.0	$ 26.0
Per common share (Canadian dollars)								
Shareholder net income – basic and diluted	**$ 1.02**	**$ 0.51**	**$ 0.61**	**$ 0.50**	$ 0.29	$ 0.38	$ 0.27	$ 0.20
Book value[28]	**$ 13.46**	**$ 12.32**	**$ 12.14**	**$ 11.81**	$ 11.17	$ 10.70	$ 9.92	$ 9.91
Common Share Repurchases								
Share volume repurchased (000 shares)	**633**	**3,526**	**-**	**-**	-	-	-	-
Shares Repurchased (millions of Canadian dollars)	**$ 15.7**	**$ 75.0**	**$ -**	**$ -**	$ -	$ -	$ -	$ -
Statistics								
Lumber shipments (MMfbm)	**1,239**	**1,367**	**1,355**	**1,271**	1,278	1,343	1,351	1,362
Pulp shipments (000 mt)	**300**	**303**	**276**	**337**	275	320	287	319
Average exchange rate – US$/Cdn$	**$ 0.786**	**$ 0.798**	**$ 0.744**	**$ 0.756**	$ 0.750	$ 0.766	$ 0.776	$ 0.728
Average Western SPF 2x4 #2&Btr lumber price (US$)	**$ 462**	**$ 406**	**$ 388**	**$ 348**	$ 315	$ 322	$ 311	$ 272
Average SYP (East) 2x4 #2 lumber price (US$)	**$ 455**	**$ 408**	**$ 476**	**$ 482**	$ 445	$ 414	$ 437	$ 407
Average NBSK pulp list price delivered to China (US$)	**$ 863**	**$ 670**	**$ 670**	**$ 645**	$ 595	$ 595	$ 617	$ 590

[28] 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.

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 fall months. Shipment volumes are affected by these factors as well as by global supply and demand conditions.

(millions of Canadian dollars)	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016	Q3 2016	Q2 2016	Q1 2016
Operating income (loss) by segment:								
Lumber	**$ 154.9**	**$ 92.9**	**$ 110.4**	**$ 83.7**	$ 57.4	$ 75.1	$ 71.5	$ 33.4
Pulp and Paper	**$ 66.8**	**$ 21.1**	**$ 31.5**	**$ 35.2**	$ 22.9	$ 31.0	$ 5.2	$ 39.1
Unallocated and Other[29]	**$ (7.5)**	**$ (8.6)**	**$ (10.9)**	**$ (12.1)**	$ (6.3)	$ (8.7)	$ (7.1)	$ (7.4)
Total operating income	**$ 214.2**	**$ 105.4**	**$ 131.0**	**$ 106.8**	$ 74.0	$ 97.4	$ 69.6	$ 65.1
Add: Amortization[30]	**$ 64.0**	**$ 61.5**	**$ 62.1**	**$ 62.3**	$ 63.6	$ 60.6	$ 57.5	$ 60.6
Total operating income before amortization	**$ 278.2**	**$ 166.9**	**$ 193.1**	**$ 169.1**	$ 137.6	$ 158.0	$ 127.1	$ 125.7
Add (deduct):								
Working capital movements	**$ (63.9)**	**$ 4.7**	**$ 92.3**	**$ (105.2)**	$ 28.1	$ 2.1	$ 128.8	$ (58.0)
Defined benefit pension plan contributions	**$ (10.4)**	**$ (5.8)**	**$ (6.6)**	**$ (6.0)**	$ (7.7)	$ (15.2)	$ (5.2)	$ (5.2)
Income taxes received (paid), net	**$ (4.2)**	**$ (21.6)**	**$ (19.3)**	**$ 1.2**	$ 0.2	$ (13.5)	$ (3.0)	$ (13.6)
Adjustment to accrued duties[31]	**$ (44.9)**	**$ -**	**$ -**	**$ -**	$ -	$ -	$ -	$ -
Gain on sale of Anthony EACOM Inc. [32]	**$ -**	**$ -**	**$ -**	**$ (4.0)**	$ -	$ -	$ -	$ -
Cash received from legal settlement	**$ -**	**$ -**	**$ -**	**$ -**	$ -	$ 16.3	$ -	$ -
Gain on legal settlement, net[33]	**$ -**	**$ -**	**$ -**	**$ -**	$ -	$ -	$ (15.5)	$ -
Other operating cash flows, net[35]	**$ 1.8**	**$ (17.1)**	**$ (5.9)**	**$ 17.7**	$ 2.8	$ 0.9	$ (8.9)	$ 2.0
Cash from (used in) operating activities	**$ 156.6**	**$ 127.1**	**$ 253.6**	**$ 72.8**	$ 161.0	$ 148.6	$ 223.3	$ 50.9
Add (deduct):								
Finance expenses paid	**$ (6.7)**	**$ (4.8)**	**$ (6.4)**	**$ (3.2)**	$ (7.5)	$ (3.5)	$ (6.9)	$ (4.1)
Distributions paid to non-controlling Interests	**$ (1.8)**	**$ (2.2)**	**$ (2.2)**	**$ (3.8)**	$ (5.4)	$ (11.6)	$ (7.3)	$ (4.2)
Capital additions, net	**$ (94.0)**	**$ (57.5)**	**$ (61.7)**	**$ (38.9)**	$ (63.4)	$ (57.1)	$ (66.2)	$ (47.1)
Proceeds received from sale of Anthony EACOM Inc. [32]	**$ 13.1**	**$ 1.4**	**$ 1.2**	**$ 5.4**	$ -	$ -	$ -	$ -
Repayment of long-term debt	**$ (50.1)**	**$ (0.1)**	**$ (0.1)**	**$ -**	$ -	$ -	$ -	$ -
Acquisitions	**$ (3.6)**	**$ -**	**$ (14.4)**	**$ (41.8)**	$ -	$ (64.2)	$ (19.7)	$ -
Proceeds from long-term debt, net	**$ 4.3**	**$ -**	**$ -**	**$ 1.7**	$ -	$ -	$ -	$ -
Share purchases	**$ (12.0)**	**$ (75.0)**	**$ -**	**$ -**	$ -	$ -	$ -	$ -
Proceeds received from sale of Lakeland Winton[34]	**$ -**	**$ -**	**$ 15.0**	**$ -**	$ -	$ -	$ -	$ -
Advances to Licella	**$ -**	**$ -**	**$ -**	**$ -**	$ (3.5)	$ -	$ (3.5)	$ -
Foreign exchange gain on cash and cash equivalents	**$ 0.1**	**$ (2.5)**	**$ (2.0)**	**$ (0.1)**	$ 1.8	$ 0.7	$ (0.3)	$ (3.9)
Other, net[35]	**$ 3.5**	**$ (10.5)**	**$ (4.3)**	**$ 3.5**	$ (0.2)	$ 4.4	$ (18.6)	$ (3.4)
Change in cash / operating loans	**$ 9.4**	**$ (24.1)**	**$ 178.7**	**$ (4.4)**	$ 82.8	$ 17.3	$ 100.8	$ (11.8)

[29] Increase in Unallocated and Other in 2017 largely attributable to higher legal costs related to the expiry of the Softwood Lumber Agreement.
[30] Amortization includes amortization of certain capitalized major maintenance costs.
[31] Adjusted to true-up preliminary countervailing and anti-dumping duty deposits expensed for accounting purposes in 2017 to current accrual rates.
[32] On March 31, 2017, Canfor sold its 50% interest in Anthony EACOM Inc. for net proceeds of $21.1 million and recognized a $3.7 million net gain.
[33] Gain relates to a $16.3 million settlement of a legal claim with respect to logistics services, net of a $0.8 million impairment of related machinery and equipment and minority interest.
[34] 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.
[35] Further information on operating cash flows can be found in the Company's annual consolidated financial statements.

THREE-YEAR COMPARATIVE REVIEW

(millions of Canadian dollars, except per share amounts)	2017	2016	2015
Sales	**$ 4,658.8**	$ 4,234.9	$ 3,925.3
Net income	**$ 393.6**	$ 203.9	$ 91.9
Shareholder net income	**$ 345.4**	$ 150.9	$ 24.7
Total assets	**$ 3,488.3**	$ 3,277.1	$ 3,294.6
Term debt	**$ 385.7**	$ 448.0	$ 456.2
Shareholder net income per share, basic and diluted	**$ 2.63**	$ 1.14	$ 0.18

FOURTH QUARTER RESULTS

Overview of Operating Results

The Company shareholder net income for the fourth quarter of 2017 was $131.8 million, or $1.02 per share, compared to shareholder net income of $66.2 million, or $0.51 per share, in the third quarter of 2017 and shareholder net income of $38.0 million, or $0.29 per share, in the fourth quarter of 2016.

The Company reported operating income of $214.2 million for the fourth quarter of 2017, up $108.8 million from reported operating income of $105.4 million for the third quarter of 2017, and up $140.2 million from reported operating income of $74.0 million in the fourth quarter of 2016.

Reported results in the fourth quarter of 2017 include a net duty recovery of $23.4 million, including a $14.0 million true-up of the preliminary countervailing duty to the final countervailing duty rate as published by the US Department of Commerce and a further $30.9 million true-up of the preliminary anti-dumping duty expense to a lower accrual rate, estimated by applying the DOC's methodology to updated sales and cost data. Reported results in the third quarter of 2017 included $32.1 million relating to the expensing of preliminary countervailing and anti-dumping duties, in addition to a $3.2 million (Q4 2016: $2.0 million) recovery related to lower estimated Canal Flats closure costs following the sale of the closed facility. After adjusting for the aforementioned items, operating income was $190.8 million for the fourth quarter of 2017, up $56.5 million from the third quarter of 2017, and up $118.8 million from the fourth quarter of 2016.

An overview of the results by business segment for the fourth quarter of 2017 compared to the third quarter of 2017 and fourth quarter of 2016 follows.

Lumber

Selected Financial Information and Statistics – Lumber

Summarized results for the Lumber segment for the fourth quarter of 2017, third quarter of 2017 and fourth quarter of 2016 were as follows:

(millions of Canadian dollars, unless otherwise noted)		**Q4 2017**		**Q3 2017**		**Q4 2016**
Sales	**$**	**859.3**	$	880.4	$	785.7
Operating income before amortization	**$**	**200.1**	$	136.1	$	101.0
Operating income	**$**	**154.9**	$	92.9	$	57.4
Countervailing and anti-dumping duty deposits, net of recovery[36]	**$**	**(23.4)**	$	32.1	$	-
Mill closure provision recovery[37]	**$**	**-**	$	(3.2)	$	(2.0)
Adjusted operating income	**$**	**131.5**	$	121.8	$	55.4
Average SPF 2x4 #2 & Btr lumber price in US$[38]	**$**	**462**	$	406	$	315
Average SPF price in Cdn$	**$**	**588**	$	509	$	420
Average SYP 2x4 #2 lumber price in US$[39]	**$**	**455**	$	408	$	445
US housing starts (thousand units SAAR)[40]		**1,251**		1,172		1,216
Production – SPF lumber (MMfbm)[41]		**903.4**		952.9		912.2
Production – SYP lumber (MMfbm)[41]		**335.4**		355.4		323.9
Shipments – SPF lumber (MMfbm)[42]		**911.0**		993.6		939.7
Shipments – SYP lumber (MMfbm)[42]		**327.5**		373.0		332.1

[36] Adjusted for preliminary countervailing and anti-dumping duty deposits expensed for accounting purposes in the third quarter of 2017 and a recovery in the fourth quarter of 2017 to true-up the preliminary duties to a current countervailing and anti-dumping duty rate.
[37] Adjusted for a recovery related to lower estimated Canal Flats closure costs following the sale of the closed facility.
[38] Western Spruce/Pine/Fir, per thousand board feet (Source – Random Lengths Publications, Inc.).
[39] Southern Yellow Pine, Eastside, per thousand board feet (Source – Random Lengths Publications, Inc.).
[40] Source – US Census Bureau, seasonally adjusted annual rate.
[41] Excluding production of trim blocks.
[42] Canfor-produced lumber, including lumber purchased for remanufacture and excluding trim blocks and wholesale shipments.

<u>Markets</u>

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

<u>Sales</u>

Sales for the lumber segment for the fourth quarter of 2017 were $859.3 million, compared to $880.4 million for the previous quarter and $785.7 million for the fourth quarter of 2016. The 2% decrease in sales revenue compared to the prior quarter principally reflected lower shipments, which more than offset the positive impact of improved Western SPF and SYP unit sales realizations. The 9% increase in sales revenue compared to the fourth quarter of 2016 was largely due to higher benchmark lumber prices, which more than offset the impact of lower shipments in the current quarter.

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

Before taking account of the aforementioned duty recovery recorded in the current quarter, Western SPF lumber unit sales realizations were well up compared to the third quarter of 2017 reflecting higher average Western SPF lumber prices, a 1 cent, or 1%, weaker Canadian dollar and a higher-value sales mix. Solid underlying demand and limited available supply continued to support improved benchmark Western SPF lumber prices, with the average benchmark North American Random Lengths Western SPF 2x4 #2&Btr price up US$56 per Mfbm, or 14%, from the previous quarter, at US$462 per Mfbm, with similar increases seen across most wider dimensions. SYP lumber unit sales realizations were modestly higher compared to the prior quarter as a higher-value sales mix, a 12% increase in the SYP East 2x4 #2 price and strong 2x6 pricing more than offset seasonally lower pricing in wider dimensions.

Compared to the fourth 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 duties and a 5% stronger Canadian dollar in the current quarter. The average North American Random Lengths Western SPF 2x4 #2&Btr price was up US$147 per Mfbm, or 47%, with similar increases seen across wider-width dimensions. SYP lumber unit sales realizations were up slightly, as a higher-value sales mix and modest gains in narrow dimension pricing more than offset price declines in certain wider dimensions.

Total residual fibre revenue in the current quarter was in line with the previous quarter as higher pricing for sawmill residual chips was offset by lower volumes in the current quarter. Residual revenue was moderately higher than the fourth quarter of 2016, largely reflecting improved chip pricing, tied in part to higher NBSK pulp sales realizations. Log sales were slightly lower than the previous quarter of 2017 as a result of reduced logging and hauling activity in Western Canada due to the adverse weather conditions. Log sales were in line with the fourth quarter of 2016. Pellet sales revenues in the current quarter were lower than both comparative quarters mostly as a result of weather-related disruptions to operations and transportation.

<u>Operations</u>

Total lumber production, at 1.2 billion board feet, was down 5% from the previous quarter, reflecting the impacts of the adverse weather on productivity, as well as additional statutory holidays and capital related downtime taken at the Company's operations in Alabama, Arkansas and Georgia. The inclement weather in Western Canada impacted log deliveries, log profile and drying capacity, all of which contributed to lower productivity in that region in the current quarter. Total lumber production was in line with the fourth quarter of 2016, for the most part reflecting increased production in the US South, which offset lower production in Western Canada.

Lumber unit manufacturing costs in the fourth quarter of 2017 were moderately higher than the previous quarter, largely reflecting the effects of the weather-related challenges on log delivery volumes and profile, purchased wood and log hauling costs, and sawmill productivity in Western Canada. Higher cash conversion costs also reflected seasonally higher energy costs. Log costs in the US South were in line with the previous quarter. Compared to the fourth quarter of 2016, unit manufacturing costs were moderately 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[43]

Summarized results for the Pulp and Paper segment for the fourth quarter of 2017, third quarter of 2017 and fourth quarter of 2016 were as follows:

(millions of Canadian dollars, unless otherwise noted)	Q4 2017	Q3 2017	Q4 2016
Sales	**$ 322.9**	$ 284.8	$ 257.8
Operating income before amortization[44]	**$ 85.6**	$ 39.4	$ 42.1
Operating income	**$ 66.8**	$ 21.1	$ 22.9
Average NBSK pulp price delivered to China – US$[45]	**$ 863**	$ 670	$ 595
Average NBSK pulp price delivered to China – Cdn$	**$ 1,098**	$ 839	$ 794
Production – pulp (000 mt)	**307.6**	305.1	304.0
Production – paper (000 mt)	**35.0**	34.8	36.0
Shipments – pulp (000 mt)	**299.7**	303.3	275.4
Shipments – paper (000 mt)	**35.8**	34.0	33.6

[43] Includes 100% of CPPI, which is consolidated in Canfor's operating results. Pulp production and shipment volumes presented are for both NBSK pulp and BCTMP.
[44] Amortization includes amortization of certain capitalized major maintenance costs.
[45] Per tonne, NBSK pulp price delivered to China (RISI).

Markets

Global softwood pulp markets experienced a strong surge in demand which commenced late in the third quarter of 2017 and continued through the fourth quarter of 2017. This growth in demand, principally from China, was partly in response to China's new regulations restricting the import of recycled mixed paper. This incremental demand, combined with various unforeseen global supply disruptions, contributed to a significant increase in market prices in the second half of 2017. At the end of December 2017, global softwood pulp producer inventory levels were in a balanced range at 30 days of supply[46]. Market conditions are generally considered balanced when inventories are in the 27-30 days of supply range.

Global shipments of bleached softwood pulp increased by 3.0% for 2017 when compared to 2016, driven primarily by increased year-over-year shipments to North America and Asian countries, including China[47].

Global kraft paper markets were balanced through the fourth quarter of 2017. The positive momentum from North American markets experienced in the first half of 2017 continued through the back half of 2017, while certain offshore markets, particularly Asia, saw increasing demand.

Sales

Pulp shipments for the fourth quarter of 2017 totalled 299,700 tonnes, broadly in line with the third quarter of 2017 and up 24,300 tonnes, or 9%, from the fourth quarter of 2016. Pulp shipments in the current quarter included a 14,000 tonne vessel shipment slippage from September; however, this was offset by a weather-related 14,000 tonne vessel delay at the end of December. Compared to the fourth quarter of 2016, the increase in pulp shipments was mostly attributable to the delayed shipment from September into October 2017, coupled with the drawdown of inventories at the end of the current quarter.

The average China US-dollar NBSK pulp list price of US$863 per tonne, as published by RISI, was up US$193 per tonne, or 29%, from the third quarter of 2017, which was the principal reason for significantly higher average NBSK pulp unit sales realizations quarter over quarter, more than offsetting the effect of timing of shipments (vs. orders), as prices increased in the period. Average BCTMP unit sales realizations also experienced a healthy increase when compared to the previous quarter, reflecting improved BCTMP markets combined with the benefit of a 1% weaker Canadian dollar.

[46] World 20 data is based on twenty producing countries representing 80% of the world chemical market pulp capacity and is based on information compiled and prepared by the PPPC.
[47] As reported by PPPC statistics.

Compared to the fourth quarter of 2016, the average China US-dollar NBSK pulp list price was up $268 per tonne, or 45%. NBSK pulp unit sales realizations saw a substantial increase when compared to the fourth quarter of 2016, primarily reflecting the notable strengthening in US-dollar prices, offset in part by a 4 cent or 5% stronger Canadian dollar combined with the unfavourable impact of the timing of shipments (versus orders) and increased customer discounts in North America. Average BCTMP unit sales realizations also increased significantly when compared to the fourth quarter of 2016, primarily reflecting the improvement in BCTMP market demand, which more than offset the stronger Canadian dollar.

Energy revenues increased during the fourth quarter of 2017 compared to the previous quarter, reflecting seasonally higher energy prices combined with strong power generation at CPPI's Intercontinental and Prince George NBSK pulp mills, offset in part by reduced power generation at the Northwood NBSK pulp mill due to the unscheduled outage in the current period. Energy revenues in the current quarter were in line with the the fourth quarter of 2016, primarily due to comparable power generation quarter over quarter, largely correlated to pulp production variances between the periods.

Paper shipments in the fourth quarter of 2017 were 35,800 tonnes, up 1,800 tonnes, or 5%, from the previous quarter and up 2,200 tonnes, or 7% from the fourth quarter of 2016, principally reflecting the favourable timing of shipments. Paper unit sales realizations in the fourth quarter of 2017 saw a modest increase when compared to the previous quarter, reflecting higher market-driven US-dollar pricing combined with the 1% weaker Canadian dollar. Compared to the same quarter of 2016, paper unit sales realizations saw a slight improvement, as favourable pricing more than offset the 5% stronger Canadian dollar.

Operations

Pulp production in the fourth quarter at 307,600 tonnes was broadly in line with both comparative periods. Production in the current quarter reflected an unscheduled outage and subsequent repairs on one production line at CPPI's Northwood NBSK pulp mill as a result of a tube leak in the number five recovery boiler, which reduced pulp production by approximately 11,000 tonnes. In addition, CPPI completed a planned scheduled outage at the Taylor BCTMP mill, which reduced pulp production by approximately 3,000 tonnes. An efficient start-up following the downtime and improved operating rates during the quarter partly offset the impact of these outages on pulp production in the current quarter. In 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. In the comparative fourth quarter of 2016, CPPI experienced a lower operating rate, primarily due to extreme cold weather challenges during that comparative period.

Pulp unit manufacturing costs were largely consistent with the third quarter of 2017, as increased maintenance spend combined with higher energy usage in the current quarter, primarily due to the aforementioned unplanned outage, were offset by improved productivity in the latter part of the quarter and lower chemical costs. Fibre costs were relatively flat compared to the third quarter of 2017 as higher market prices for delivered sawmill residual chips (linked to Canadian dollar NBSK pulp sales realizations), coupled with a modest increase in the proportion of higher-cost whole log chips in the current quarter, were offset by seasonal pricing adjustments arising from the adverse weather conditions in the current quarter.

Compared to the fourth quarter of 2016, pulp unit manufacturing costs saw a modest increase, principally due to higher fibre costs, and to a lesser extent, higher chemical pricing and increased maintenance spend in the current quarter, partially offset by improved productivity and lower energy costs. Increased fibre costs in the current quarter largely reflected significantly higher market prices for delivered sawmill residual chips combined with a larger proportion of higher-cost whole log chips.

Paper production for the fourth quarter of 2017 of 35,000 tonnes, was broadly in line with the previous quarter, and down 1,000 tonnes, or 3%, when compared to the fourth quarter of 2016, principally reflecting a slightly lower operating rate in the current quarter. Paper unit manufacturing costs increased compared to both the third quarter of 2017 and the fourth quarter of 2016. The increase compared to the immediately prior quarter were primarily driven by significantly higher slush pulp costs, associated with higher average NBSK sales realizations, in the current quarter. Compared to the fourth quarter of 2016, the increase in paper unit manufacturing costs principally reflected the higher slush pulp costs and, to a lesser extent, increases in maintenance spend and higher chemical costs in the current quarter.

Unallocated and Other Items

(millions of Canadian dollars)	Q4 2017	Q3 2017	Q4 2016
Operating loss of Panels operations[48]	**$ (0.8)**	$ (0.4)	$ (0.6)
Corporate costs	**$ (6.7)**	$ (8.2)	$ (5.7)
Finance expense, net	**$ (6.9)**	$ (8.1)	$ (8.0)
Foreign exchange gain (loss) on long-term debt	**$ (0.7)**	$ 5.0	$ (3.1)
Gain (loss) on derivative financial instruments	**$ (6.5)**	$ (1.9)	$ 2.1
Other income (expense), net	**$ 1.5**	$ (4.3)	$ (4.1)

[48] 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 $6.7 million for the fourth quarter of 2017, down $1.5 million from the previous quarter for the most part reflecting lower costs associated with the Softwood Lumber Agreement and a settlement adjustment on certain non-pension post-retirement benefit plan members under a voluntary retiree buyout program in the fourth quarter of 2017.

Net finance expense at $6.9 million was down $1.2 million from the previous quarter and down $1.1 million from the fourth quarter of 2016 reflecting, in part, higher interest income in the current quarter. In the fourth quarter of 2017, the Company recognized a foreign exchange loss on its US-dollar term debt held by Canadian entities due to the weaker Canadian dollar at the end of the quarter compared to the end of September (see further discussion on the term debt financing in the "Liquidity and Financial Requirements" section).

The Company uses a variety of derivative financial instruments as partial economic hedges against unfavourable changes in foreign exchange rates, energy costs, lumber prices and interest rates. In the fourth quarter of 2017, the Company recorded a net loss of $6.5 million related to its derivatives instruments, primarily reflecting realized losses on lumber future contracts.

Other income, net of $1.5 million in the fourth quarter of 2017 reflected, in part, foreign exchange gains on US-dollar denominated working capital resulting from the weakening of the Canadian dollar relative to the US-dollar compared to the end of the third quarter of 2017.

Other Comprehensive Income (Loss)

(millions of Canadian dollars)	Q4 2017	Q3 2017	Q4 2016
Defined benefit actuarial gains, net of tax	**$ 29.7**	$ 13.0	$ 15.0
Foreign exchange translation differences for foreign operations, net of tax	**2.6**	(19.9)	10.4
Change in fair value of available-for-sale financial assets, net of tax	**-**	-	(0.2)
Other comprehensive income (loss), net of tax	**$ 32.3**	**$** (6.9)	$ 25.2

In the fourth quarter of 2017, the Company recorded an after-tax gain of $29.7 million in relation to changes in the valuation of the Company's employee future benefit plans. The gain in the current quarter of 2017 primarily reflected a 50% reduction in MSP premiums following a change in legislation in British Columbia, and to a lesser extent, a reduction in the MSP growth trend rate used to value the obligation and the return generated on plan assets. These factors more than offset a 0.4% decrease in the discount rate used to value the employee future benefit plans. The gain compared to an after-tax gain of $13.0 million in the previous quarter and an after-tax gain of $15.0 million in the fourth quarter of 2016, in both cases largely reflecting higher discount rates.

During the fourth quarter of 2017, the Company purchased $45.8 million of annuities through its defined benefit plans to mitigate its exposure to the future volatility fluctuations in the related pension obligations. At purchase of these annuities, transaction costs of $1.3 million were recognized in other comprehensive income principally reflecting the difference in the annuity rate as compared to the discount rate used to value the pension obligations on a going concern basis. For more information, see the "Employee Future Benefits" part of the "Critical Accounting Estimates" section later in this report.

In addition, the Company recorded an accounting gain of $2.6 million in the fourth quarter of 2017 related to foreign exchange differences for foreign operations due to the weakening of the Canadian dollar relative to the US-dollar at the end of the quarter. This compared to a loss of $19.9 million in the previous quarter and a gain of $10.4 million in the fourth quarter of 2016.

CHANGES IN FINANCIAL POSITION

At the end of 2017, Canfor had $288.2 million of cash and cash equivalents.

(millions of Canadian dollars)	Q4 2017	Q3 2017	Q4 2016
Cash generated from (used in)			
Operating activities	**$ 156.6**	$ 127.1	$ 161.0
Financing activities	**(65.8)**	(89.6)	(80.9)
Investing activities	**(81.5)**	(59.1)	(67.1)
Increase (decrease) in cash and cash equivalents[49]	**$ 9.3**	$ (21.6)	$ 13.0

[49] Increase (decrease) in cash and cash equivalents shown before foreign exchange translation on cash and cash equivalents.

The changes in the components of these cash flows are discussed in the following sections.

Operating Activities

Cash generated from operating activities was $156.6 million in the fourth quarter of 2017, compared to $127.1 million in the previous quarter and $161.0 million in the fourth quarter of 2016. The increase in operating cash flows from the previous quarterly primarily reflected higher cash earnings in the current quarter, offset in part by seasonally higher log inventories, and increased lumber inventories, in part reflecting the weather-related transportation constraints towards the end of 2017.

Compared to the fourth quarter of 2016, operating cash flows were down $4.4 million as higher cash earnings in the current quarter were more than offset by higher lumber inventories, and income tax payments in the fourth quarter of 2017.

Financing Activities

Cash used in financing activities was $65.8 million in the current quarter, compared to cash used of $89.6 million in the previous quarter and cash used of $80.9 million in the fourth quarter of 2016. During the current quarter, the Company obtained $4.3 million (US$3.4 million) in net financing related to certain capital projects at its US sawmills, while CPPI made an early repayment of its $50.0 million term debt (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 fourth quarter of 2017, similar to the prior quarter and a decrease of $28.0 million from the end of 2016. During the current quarter, the Company made cash distributions of $1.8 million to non-controlling shareholders, in line with the previous quarter and down $3.6 million from the fourth quarter of 2016, largely reflecting the completion of the Company's phased acquisitions in the US South at the beginning of 2017.

In the fourth quarter of 2017, Canfor purchased 633,176 common shares under its Normal Course Issuer Bid for $15.7 million, of which $12.0 million was paid during the period. In the third quarter of 2017, Canfor purchased 3,526,387 common shares for $75.0 million, while CPPI purchased 568,425 common shares from non-controlling shareholders for $7.2 million. No common shares were purchased in the fourth quarter of 2016. See further discussion of the shares purchased under the Normal Course Issuer Bid in the following "Liquidity and Financial Requirements" section.

Investing Activities

Cash used for investing activities was $81.5 million in the current quarter, compared to $59.1 million in the previous quarter and $67.1 million in the same quarter of 2016. Capital additions were $94.0 million, up $36.5 million from the previous quarter and up $30.6 million from the fourth quarter of 2016. Current quarter capital expenditures included various smaller high-returning capital projects aimed at increasing drying capacity and productivity, including upgrades at the Company's sawmills in Georgia, Arkansas and Alabama. In the pulp and paper segment, capital expenditures primarily related to several capital projects including the previously announced energy projects at the Company's Northwood and Taylor pulp mills. Investing activities in the fourth quarter of 2017 included final proceeds of $13.1 million related to the March 2017 sale of the Company's 50% investment in Anthony EACOM Inc., and a final payment of $3.6 million related to the Company's acquisition of Wynndel.

SPECIFIC ITEMS AFFECTING COMPARABILITY

Specific Items Affecting Comparability of Shareholder Net Income

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)	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016	Q3 2016	Q2 2016	Q1 2016
Shareholder net income, as reported	**$ 131.8**	**$ 66.2**	**$ 81.3**	**$ 66.1**	$ 38.0	$ 50.9	$ 36.0	$ 26.0
Foreign exchange (gain) loss on long-term debt	**$ 0.6**	**$ (4.4)**	**$ (2.9)**	**$ (1.0)**	$ 2.7	$ 0.9	$ (0.3)	$ (6.9)
Countervailing and anti-dumping duty deposits, net of accrued recovery[50]	**$ (17.3)**	**$ 23.8**	**$ 26.3**	**$ -**	-	-	-	-
(Gain) loss on derivative financial instruments	**$ 4.8**	**$ 1.4**	**$ -**	**$ (2.4)**	$ (1.5)	$ (0.1)	$ (2.3)	$ 1.8
Change in substantively enacted tax rates[51]	**$ (5.1)**	**$ -**	**$ -**	**$ -**	$ -	$ -	$ -	$ -
Mill closure provisions [52]	**$ -**	**$ (2.4)**	**$ -**	**$ -**	$ (1.5)	$ -	$ -	$ -
Gain on sale of Anthony EACOM Inc. [53]	**$ -**	**$ -**	**$ -**	**$ (3.4)**				
Gain on legal settlement, net[54]	**$ -**	**$ -**	**$ -**	**$ -**	$ -	$ -	$ (6.9)	$ -
Net impact of above items	**$ (17.0)**	**$ 18.4**	**$ 23.4**	**$ (6.8)**	$ (0.3)	$ 0.8	$ (9.5)	$ (5.1)
Adjusted shareholder net income	**$ 114.8**	**$ 84.6**	**$ 104.7**	**$ 59.3**	$ 37.7	$ 51.7	$ 26.5	$ 20.9
Shareholder net income per share (EPS), as reported	**$ 1.02**	**$ 0.51**	**$ 0.61**	**$ 0.50**	$ 0.29	$ 0.38	$ 0.27	$ 0.20
Net impact of above items per share[55]	**$ (0.13)**	**$ 0.14**	**$ 0.18**	**$ (0.05)**	$ -	$ 0.01	$ (0.07)	$ (0.04)
Adjusted net income per share[55]	**$ 0.89**	**$ 0.65**	**$ 0.78**	**$ 0.45**	$ 0.29	$ 0.39	$ 0.20	$ 0.16

[50] Adjusted for preliminary countervailing and anti-dumping duty deposits expensed for accounting purposes in the third quarter of 2017 and an accrued recovery in the fourth quarter of 2017 to true-up the preliminary duties to current countervailing and anti-dumping duty rates. Duty expenses recorded in the third and second quarter of 2017 were reclassified to conform to the current quarter's presentation.

[51] During the fourth quarter of 2017, the Company recorded a $5.1 million decrease, net of minority interest, in deferred tax balances as a result of legislative changes in both Canada and the US.

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

[53] On March 31, 2017, Canfor sold its 50% interest in Anthony EACOM Inc. for net proceeds of $21.1 million and recognized a $3.7 million net gain (before-tax).

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

[55] The year-to-date net impact of the adjusting items per share and adjusted net income per share does not equal the sum of the quarterly per share amounts due to rounding and the weighted average common shares outstanding during the applicable period.

OUTLOOK

Lumber Markets

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

Pulp and Paper Markets

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

CPPI has no maintenance outages planned for the first quarter of 2018. Maintenance outages are currently planned at the Prince George NBSK pulp mill and at the Taylor BCTMP mill in the second quarter of 2018 with a projected 5,000 tonnes of reduced NBSK pulp production and 11,000 tonnes of reduced BCTMP production, respectively. The schedule outage at the Taylor BCTMP mill will include work associated with the previously announced energy project. A maintenance outage at the Northwood NBSK pulp mill is scheduled in the third quarter of 2018 with a projected 22,000 tonnes of reduced NBSK pulp production. A maintenance outage is currently planned at CPPI's paper machine during the second quarter of 2018 with a projected 4,000 tonnes of reduced paper production.

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with International Financial Reporting Standards ("IFRS") requires management to make estimates and assumptions that affect the amounts recorded in the financial statements. Management regularly reviews these estimates and assumptions based on 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 Canfor's financial position. Unless otherwise indicated the critical accounting estimates discussed affect all of the Company's reportable segments.

Employee Future Benefits

Canfor has various defined benefit and defined contribution plans providing both pension and other non-pension post-retirement benefits to most of its salaried employees and certain hourly employees not covered by forest industry union plans. Canfor also provides certain health care benefits and pension bridging benefits to eligible retired employees. The costs and related obligations of the pension and other retirement benefit plans are accrued in accordance with the requirements of IFRS.

Canfor uses independent actuarial firms to perform actuarial valuations of the fair value of pension and other retirement benefit plan obligations. The application of IFRS requires judgments regarding certain assumptions that affect the accrued benefit provisions and related expenses, including the discount rate used to calculate the present value of the obligations, the rate of compensation increase, mortality assumptions, and the assumed health care cost trend rates. Management evaluates these assumptions quarterly based on experience and the recommendations of its actuarial firms. Changes in these assumptions result in actuarial gains or losses, which are recognized in full in each period with an adjustment through other comprehensive income (loss).

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

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

In addition to the significant assumptions listed in the table above, the average life expectancy of a 65 year old at December 31, 2017 is between 21.0 years and 24.1 years (2016 - 20.9 years and 24.1 years). As at December 31, 2017, the weighted average duration of the defined benefit obligation, which reflects the average age of the plan members, is 12.3 years (2016 - 12.1 years). The weighted average duration of the other benefit plans is 14.2 years (2016 - 14.6 years).

Assumed discount rates and medical cost trend rates have a significant effect on the accrued benefit obligation and related plan assets. A one percentage point change in these assumptions would have the following effects on the accrued retirement benefit obligation, taking into account the hedging impact of plan annuity assets, for 2017:

(millions of Canadian dollars)	1% Increase	1% Decrease
Defined benefit pension plan liabilities, net of annuity assets		
Discount rate	$ (59.3)	$ 59.8
Other benefit plan liabilities		
Discount rate	$ (15.9)	$ 19.9
Initial medical cost trend rate	$ 13.9	$ (11.7)

See "Liquidity and Financial Requirements" section for further discussion regarding the funding position of Canfor's pension plans.

Deferred Reforestation

Canfor accrues an estimate of its future liability to perform forestry activities, defined to mean those silviculture treatments or activities that are carried out to ensure the establishment of a free-growing stand of young trees, including logging road rehabilitation on its forestry tenures in BC and Alberta. An estimate is recorded in the financial statements based on the number of hectares of timber harvested in the period and the estimated costs of fulfilling Canfor's obligation. Payments in relation to reforestation are expected to occur over periods of up to 15 years (the significant majority occurring in the first seven years) and have been discounted accordingly at risk-free rates ranging from 1.5% to 2.1%. The actual costs that will be incurred in the future may vary based on, among other things, the actual costs at the time of silviculture activities.

Deferred Taxes

In accordance with IFRS, Canfor recognizes deferred income tax assets when it is probable that the deferred income tax assets will be realized. This assumption is based on management's best estimate of future circumstances and events. If these estimates and assumptions are changed in the future, the value of the deferred income tax assets could be reduced or increased, resulting in an income tax expense or recovery. Canfor reevaluates its deferred income tax assets on a regular basis.

Asset Retirement Obligations

Canfor records the estimated fair value of a liability for asset retirement obligations, such as landfill closures, in the period when it is incurred. For landfill closure costs, the fair value is determined using estimated closure costs discounted over the estimated useful life. Payments relating to landfill closure costs are expected to occur at periods ranging from 4 to 53 years and have been discounted at risk-free rates ranging from 1.8% to 2.3%. The actual closure costs and periods of payment may differ from the estimates used in determining the year end liability. On initial recognition, the fair value of the liability is added to the carrying amount of the associated asset and amortized over its useful life. The liability is accreted over time through charges to earnings and reduced by actual costs of settlement.

Environmental Remediation Costs

Costs associated with environmental remediation obligations are accrued and expensed when there exists a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Such accruals are adjusted as further information develops or circumstances change. Costs of future expenditures for environmental remediation obligations are discounted to their present value when the amount and timing of expected cash payments are reliably determinable.

Impairment of Goodwill

Goodwill, which is the excess of the cost of an acquisition over the fair value of the net identifiable assets acquired, is not amortized but is assessed annually for impairment or more frequently if events or circumstances indicate that it may be impaired.

An impairment loss is recognized in net income at the amount that the carrying value, including goodwill, of the relevant operating division exceeds its recoverable amount. The recoverable amount is the higher of the unit's fair value less costs to sell and value in use. For Canfor's goodwill (which is allocated to the lumber segment), the recoverable amount of the relevant assets is determined by estimating the future expected discounted cash flows of the unit as a whole on an annual basis, and more often if required. As part of this process, assumptions are made in relation to forecast product prices and exchange rates. Price forecasts are determined with management estimates. Other significant assumptions include the discount rate. The net present value of the future expected cash flows is compared to the carrying value of the Company's investment in these assets, including goodwill, at year end.

Based upon the analysis performed in 2017, the net present value of the estimated discounted future cash flows exceeded the carrying value of each of the cash generating units tested for impairment, and therefore no impairments to goodwill were required. If actual results are materially lower than the forecast assumptions, there is a possibility that an impairment of goodwill may be required in future periods.

Valuation of Log and Finished Product Inventories

Log and finished product inventories are recorded at the lower of cost and net realizable value. For inventories of solid wood products, the net realizable value is determined by taking into account forecast prices and exchange rates for the period over which the inventories are expected to be sold. Forecast prices are determined using management's estimates as at the period end, and may differ from the actual prices at which the inventories are sold. There were no inventory write-downs at December 31, 2017.

Allowance for Doubtful Accounts

An allowance for doubtful accounts of $3.5 million has been recorded at December 31, 2017 which reflects management's assessment of risks attached to the collection of receivable balances. While significant bad debts have not been experienced in prior years, the provision is considered appropriate due to several risks still existing which may affect the ability of certain customers to pay amounts owed to the Company.

FUTURE CHANGES IN ACCOUNTING POLICIES

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

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

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

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

RISKS AND UNCERTAINTIES

Risks and uncertainties fall into the general business areas of markets, international commodity prices, competition, currency exchange rates, environmental issues, forest land base, government regulations, public policy and labour disputes, and, for Canadian companies, a history of trade disputes and issues and Aboriginal land claims. The future impact of the various uncertainties and potential risks described in the following paragraphs (together with the risks and uncertainties identified under each of the Company's business segments) cannot be quantified or predicted with certainty. However, Canfor does not foresee unmanageable adverse effects on its business operations from, and believes that it is well positioned to deal with, such matters as may arise. The risks and uncertainties are set out in alphabetical order.

Aboriginal Issues

Canadian judicial decisions have recognized the continued existence of Aboriginal rights and title to lands continuously and exclusively used or occupied by Aboriginal groups. In June 2014, the Supreme Court of Canada, for the first time, recognized Aboriginal title for the Tsilhqot'in Nation over approximately 1,750 square kilometres of land in central BC ("William decision"). It found that provisions of BC's Forest Act, dealing with the disposition or harvest of Crown timber, no longer applied to timber located on these lands, but also confirmed provincial law can apply on Aboriginal title lands.

While Aboriginal title had previously been assumed to exist over specific, intensively occupied areas such as villages, the William decision marks the first time Canada's highest court has recognized Aboriginal title over a specific piece of land and, in so doing, affirmed a broader territorial use-based approach to Aboriginal title. The decision also further defines what Aboriginal title means and the types of land uses consistent with this form of collective ownership.

Presently, Aboriginal title has not been established by law in any areas overlapping Canfor's tenure areas; however, Aboriginal rights continue to exist over traditional territories, and Canfor cannot assure that this will not affect its timber harvesting rights. Forest harvesting operations are continuing to proceed under these current requirements. The Government of BC delegates procedural aspects of consultation to tenure holders, including Canfor, and Canfor works to establish productive and mutually beneficial relationships with First Nations whose traditional territories overlap Canfor operating areas. The Government of BC has also taken steps to improve certainty and access to timber resources through interim agreements with First Nations that include timber rights. Canfor holds numerous agreements with individual First Nations whereby it manages and/or purchases their timber.

The impacts of the William decision on the timber supply from Crown lands and on Canfor's operations is unknown at this time, and Canfor does not know if the decision will lead to changes in BC laws or policies. However, as issues relating to Aboriginal rights and title develop and be resolved in Canadian courts, Canfor will continue to engage, cooperate and exchange information and views with First Nations and Government to foster good relationships and minimize risks to Canfor's tenures and operational plans.

Capital Requirements

The lumber products industry is capital intensive, and the Company regularly incurs capital expenditures to expand its operations, maintain its equipment, increase its operating efficiency and comply with environmental laws. The Company's total capital expenditures during 2017 were $252.1 million. The Company anticipates available cash resources and cash generated from operations will be sufficient to fund its operating needs and capital expenditures in the foreseeable future.

Climate Change

The Company's operations are subject to adverse events brought on by both natural and man-made disasters. These events include, but are not limited to, severe weather conditions, forest fires, earthquakes and timber diseases and insect infestations. These events could damage or destroy the Company's operating facilities, adversely affect Canfor's timber supply or result in reduced transportation availability. These events could have similar effect on the facilities of the Company's suppliers and customers. Any of the damage caused by these events could increase costs and decrease production capacity at the Company's operations having an adverse effect on the Company's financial results. The Company believes there are reasonable insurance arrangements in place to cover certain outcomes of such incidents; however, there can be no guarantees that these arrangements will fully protect the Company against such losses. As is common practice in the industry, the Company does not insure loss of standing timber for any cause.

Competitive Markets

The Company's products are sold primarily in the US, Canada, and Asia. The markets for the Company's products are highly competitive on a global basis, with various major companies competing in each market with no company holding a dominant position. Competitive factors include quality of product, reliability of supply and customer service. The Company's competitive position is influenced by: the availability, quality, and cost of raw materials; energy and labour costs; free access to markets; currency exchange rates; plant efficiencies; productivity; transportation costs and customer service in relation to its competitors.

Currency Exchange Risk

The Company's operating results are sensitive to fluctuations in the exchange rate of the Canadian dollar to the US-dollar, as prices for the Company's products are denominated in US-dollars or linked to prices quoted in US-dollars. Therefore, an increase in the value of the Canadian dollar relative to the US-dollar reduces the amount of revenue in Canadian dollar terms realized by the Company from sales made in US-dollars, which in turn, reduces the Company's operating margin and the cash flow available.

Cyclicality of Product Prices

The Company's financial performance is dependent upon the selling prices of its products, which have fluctuated significantly in the past. The markets for these products are cyclical and may be characterized by (i) periods of excess product supply due to industry capacity additions, variable production rates or capacity utilization and other factors; and (ii) periods of insufficient demand due to weak general economic conditions. The economic climate of each region where the Company's products are sold has a significant impact upon the demand, and therefore, the prices.

Employee Future Benefits

Canfor has several defined benefit plans, which provide pension and other post-retirement benefits to certain salaried and hourly employees. Pension plan benefits are based on years of service and final average salary (for salaried employees), and flat rate benefit and years of service (for hourly employees). Canfor's other non-pension post-retirement benefit plans are non-contributory and include a range of health care and other benefits. Canfor also provides pension bridge benefits to certain eligible former employees.

Cash payments required to fund the pension plan are determined by actuarial valuation completed at least once every three years, with the most recent actuarial valuation for the largest plan completed as of December 31, 2015. Other non-pension post-retirement benefit plans are unfunded, and the Company makes payments as required to cover liabilities as they arise.

The funded surplus (deficit) of each defined benefit plan is calculated as the difference between the value of any plan assets and an actuarial estimate of future liabilities. Any deficit in the registered pension plans determined following an actuarial valuation must be funded in accordance with regulatory requirements, normally over 5 or 15 years. Some of the unregistered plans are also partially funded.

Through its pension funding requirements, Canfor is exposed to the risk of fluctuating market values for the securities making up the plan assets, and to changes in prevailing interest rates which determine the discount rate used in calculating the estimated future liabilities. The funding requirements may also change to the extent that other assumptions used are revised, such as inflation rates or mortality assumptions.

The Company utilizes investments in buy-in annuities to reduce its exposure to these risks. Future cash flows from the annuities match the amount and timing of benefits payable under the plans, substantially mitigating the exposure to future volatility in the related pension obligations.

For Canfor's pension benefit plans, a one percentage point increase in the discount rate used in calculating the actuarial estimate of future liabilities would reduce the accrued benefit obligation by an estimated $59.3 million and a one percentage point decrease in the discount rate would increase the accrued benefit obligation by an estimated $59.8 million. These changes would only impact the Company's funding requirements in years where a new actuarial funding valuation was performed and regulatory approval for a change in funding contributions was obtained.

Environmental Issues

Canfor's operations are subject to environmental regulation by federal, provincial, state and local authorities, including specific environmental regulations relating to air emissions and pollutants, wastewater (effluent) discharges, solid waste, landfill operations, forestry practices, site remediation and the protection of endangered species and critical habitat. Canfor has incurred, and will continue to incur, capital expenditures and operating costs to comply with environmental laws and regulations. No assurance can be given that changes in these laws and regulations or their application will not have a material adverse effect on Canfor's business, operations, financial condition and operational results. Similarly, no assurance can be given that capital expenditures necessary for future compliance with existing and new environmental laws and regulations could be financed from Canfor's available cash flow. In addition, Canfor may discover currently unknown environmental issues, contamination, or conditions relating to historical or present operations. This may require site or other remediation costs to maintain compliance or remedy issues or result in governmental or private claims for damage to person, property or the environment, which could have a material adverse effect on Canfor's business, financial condition and operational results.

Canfor has systems in place to identify, account for and appropriately address potential environmental liabilities. The Company also has governance in place including an Environmental, Health and Safety Committee of the Board, a Corporate Environmental Management Committee including Officers of the Company, and environmental professionals on staff to manage potential risks, issues and liabilities.

Canfor has in place internal policies and procedures under which all its forestry and manufacturing operations are regularly audited for compliance with laws and accepted standards and with its environmental management system requirements. CPPI's pulp mills and Canfor's woodlands operations and wood product facilities employ environmental management systems and the pulp mills and woodlands operations are certified under the ISO 14001 Environmental Management System Standard. Further, approximately 99% of Canfor's forest tenures in Canada are third-party certified to the Canadian Standards Association ("CSA"), the Forest Stewardship Council ("FSC") or the Sustainable Forestry Initiative ("SFI") sustainable forest management standards. Canfor's operations and its ability to sell its products could be adversely affected if those operations did not, or were perceived by the public as failing to, comply with applicable laws and standards, and following responsible environmental and sustainable forest management practices. Further discussion of environmental issues is included in the Company's Annual Information Form, incorporated by reference herein.

Fibre Cost and Availability

The Company's fibre costs are affected by a number of different factors which could have a significant impact on operating results. Lumber market fluctuations and log market speculative bidding each play a significant role in both fibre supply and costs. In Western Canada, in areas where the amount of pine left to be salvaged as a result of the MPB infestation has significantly declined (i.e. shelf-life has been reached), harvesting is transitioning back to traditional harvesting patterns and operating areas (See "Forest Health" below for more commentary regarding MPB). While this shift out of the MPB stands has the benefit of improving the quality of fibre and in some cases may also provide relief in the form of reduced tree to truck costs, it will also result in increased log transportation, road construction and reforestation costs. The current log supply and demand factors will dictate timber auction and log market behavior and, in the shorter term, until existing manufacturing capacity is rationalized to match available log supply, Canfor expects to see this also contributing to higher log costs in Western Canada in the near future. In addition, the Company's ability to harvest fibre for use in its operations could be adversely impacted by natural events such as forest fires, severe weather conditions or insect infestations. In the event that sufficient volumes of economically viable fibre cannot be provided to an operation, it may be necessary to close that operation for a period of time, or even permanently. Such closures could result in significant costs to the Company. The Company is not insured for loss of standing timber. Canfor has secured its fibre position in Western Canada relative to its existing sawmill capacity and no shortage of supply is anticipated at any of the Company's operations at this time.

Financial Risk Management and Earnings Sensitivities

Demand for forest products, both wood products and pulp and paper, is closely related to global business conditions and tends to be cyclical in nature. Product prices can be subject to volatile change. Canfor, like the majority of the Canadian forest products industry, competes in a global market and the majority of its products are sold in US-dollars. Consequently, changes in foreign currency relative to the Canadian dollar can impact Canfor's revenues and earnings.

Financial Risk Management

Canfor is exposed to a number of risks as a result of holding financial instruments. These risks include credit risk, liquidity risk and market risk.

Canfor's internal Risk Management Committee manages risk in accordance with a Board approved Price Risk Management Controls Policy. This policy provides the framework for risk management related to commodity price, foreign exchange, interest rate and counterparty credit risk of Canfor.

(a) Credit risk:

Credit risk is the risk of financial loss to Canfor if a counterparty to a financial instrument fails to meet its contractual obligations.

Financial instruments that are subject to credit risk include cash and cash equivalents, accounts receivable, and long-term investments. Cash and cash equivalents includes cash held through major Canadian and international financial institutions as well as temporary investments with an original maturity date, or redemption date, of three months or less.

Canfor utilizes credit insurance to mitigate the risk associated with some of its trade receivables. As at December 31, 2017, approximately 40% of the outstanding trade receivables are covered by credit insurance. Canfor's trade receivable balance at December 31, 2017 is $196.5 million before an allowance for doubtful accounts of $3.5 million. At December 31, 2017, approximately 99% of the trade accounts receivable balance are within Canfor's established credit terms.

(b) Liquidity risk:

Liquidity risk is the risk that Canfor will be unable to meet its financial obligations as they come due. Canfor manages liquidity risk through regular cash flow forecasting in conjunction with an adequate committed operating loan facility.

At December 31, 2017, Canfor had no amount drawn on its operating loans, and accounts payable and accrued liabilities of $470.0 million, all of which are due within twelve months of the balance sheet date.

(c) Market risk:

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates, foreign currency, energy and commodity prices.

(i) *Interest Rate risk*:

Canfor is exposed to interest rate risk through its current financial assets and financial obligations bearing variable interest rates.

At times, Canfor may utilize interest rate swaps to reduce its exposure to interest rate risk associated with financial obligations bearing variable interest rates (see "Derivative Financial Instruments" section later in this document).

As noted earlier in this section (under "Employee Future Benefits"), Canfor is also exposed to interest rate risk in relation to the measurement of the Company's pension liabilities.

(ii) *Currency risk:*

Canfor is exposed to foreign exchange risk primarily related to the US-dollar, as Canfor's products are sold principally in US-dollars. In addition, Canfor holds financial assets and liabilities primarily related to its US entities in US-dollars.

A portion of the currency risk associated with US-dollar denominated sales is naturally offset by US-dollar denominated expenses. A portion of the remaining exposure is sometimes reduced by foreign exchange collars contracts that effectively limit the minimum and maximum Canadian dollar recovery related to the sale of those US-dollars (see "Derivative Financial Instruments" section later in this document).

(iii) *Commodity price risk:*

Canfor is exposed to commodity price risk related to the sale of lumber, pulp and paper. From time to time, Canfor enters into futures contracts on the Chicago Mercantile Exchange for lumber and forward contracts direct with customers or on commodity exchanges for pulp. Under the Company's Price Risk Management Controls Policy, up to 15% of lumber sales and 1% of pulp sales may be sold in this way. Canfor is also exposed to commodity price risk on the sale of electricity in Canada. Prices are set by third-party regulatory bodies. (See "Derivative Financial Instruments" section later in this document).

(iv) *Energy price risk:*

Canfor is exposed to energy price risk relating to purchases of natural gas and diesel oil for use in its operations.

The annual exposure may be hedged up to 100% through the use of floating to fixed swap contracts or option contracts with maturity dates up to a maximum of three years. In the case of diesel, Canfor uses Brent oil and WTI oil contracts to hedge its exposure (see "Derivative Financial Instruments" section later in this document).

Derivative Financial Instruments

Subject to risk management policies approved by its Board of Directors, Canfor, from time to time, uses derivative instruments, such as forward exchange contracts and option contracts to hedge future movements of exchange rates and interest rates, and futures and forward contracts to hedge commodity prices and energy costs. See section "Liquidity and Financial Requirements" for details of Canfor's derivative financial instruments outstanding at year end.

Earnings Sensitivities

Estimates of the sensitivity of Canfor's pre-tax results to currency fluctuations and prices for its principal products, based on 2018 forecast production and year end foreign exchange rates, are set out in the following table:

(millions of Canadian dollars)	Impact on annual pre-tax earnings
SPF lumber – US$10 change per Mfbm[56, 57]	$ 47
SYP lumber – US$10 change per Mfbm[56, 57]	$ 18
Softwood Lumber Duties – 5% change	$ 40
Pulp – US$10 change per tonne[58, 59]	$ 13
Canadian dollar – US$0.01 change per Canadian dollar[58, 59]	$ 21

[56] Based on sales of Canfor-produced product, before softwood lumber duties.
[57] Excluding impacts of exchange rate, freight, discounting, potential change in fibre costs and other deductions.
[58] Includes 100% of CPPI.
[59] Represents impact on operating income. Decrease of US$0.01 per Canadian dollar results in an increase to pre-tax annual earnings and an increase of US$0.01 per Canadian dollar results in a decrease to pre-tax annual earnings.

Forest Health

Timber affected by the MPB has dominated the focus for Canfor harvesting activities in central and northern BC for more than a decade, but given the shelf-life expiry of the dead pine stands, that focus is now rapidly shifting to mixed coniferous species stands. To ensure that sufficient dead pine is being harvested to sustain the current allowable harvest rates and minimize impacts to the mid-term timber supply, the Chief Forester of British Columbia has established "AAC partitions" in a number of Timber Supply Areas ("TSA"). These partitions cap or restrict the harvest of non-pine species and will be revisited during upcoming Timber Supply Reviews ("TSR") as the viability of the merchantable dead pine stands further decline. Now however, upon reaching the end of shelf-life for the most severely impacted stands, the Chief Forester has commenced the reduction of the annual allowable cut ("AAC") of the MPB-impacted TSA. The Company anticipates this trend will continue over the next five to ten years.

In Alberta, detection surveys in 2016 have indicated the rate of MPB spread is increasing in certain areas. The largest active beetle populations are found in the West Central and Northwestern parts of the Province, particularly within the Jasper National Park boundary. An accelerated harvest of susceptible pine on the Canfor Forest Management Agreement ("FMA") area since 2009 in conjunction with government control efforts, has helped contain the spread in this area. On the other hand, pine mortality in areas north of the Peace River, including the Canfor quota area, has been extensive and harvesting objectives are now focused on salvage rather than spread prevention.

In response to more recent MPB activity, some management units have seen temporary increases in the annual allowable harvest rates. This includes Tree Farm License 30 in the Prince George region (25% increase for up to 10 years), Mackenzie TSA (48% increase for up to 10 years) and Tree Farm License 48 in the Chetwynd area (72% increase for 5 years). Some Northern Alberta harvest rates have been temporarily increased to deal with the rising MPB infestation and additional temporary increases could be made for the same reason in other areas of the province. The significant AAC increase approved for the quota area has maximized the opportunity to harvest infected pine stands before significant reduction in log quality occurs. In addition, the Alberta Government has committed funds for the rehabilitation of dead pine stands that have not been harvested due to merchantability limitations.

The recent outbreak of spruce beetle in the Mackenzie TSA and northeastern portion of the Prince George TSA has caused Canfor to shift its harvesting into stands under imminent threat or of high susceptibility to beetle infestation. Canfor is working collaboratively with other forest companies and with local and Provincial Government agencies to develop planning and harvesting tactics and strategies to arrest the spread and limit the damage caused by this pest. At this time Canfor has sufficient capacity to handle the outbreak within its operating areas and has offered its assistance to neighbouring operators who lack the capacity to address the issue.

A variety of tactics are being deployed to mitigate the spread and impact of the spruce beetle, including aerial and ground reconnaissance, trap trees, pheromone baiting, log yard and log transportation management, sanitation harvest (focused on leading edge attack zones) and finally salvage harvest. Canfor is also moving swiftly in ramping up its capacity to harvest steep slopes where much of the spruce beetle outbreak currently exists.

The impact of the infestation on Canfor's operations continues to be manageable in the short-term and the Company has taken steps to minimize its exposure to reductions in annual allowable harvests and to ensure a sufficient supply for its existing operations.

Government and Other Regulations

Canfor is subject to a wide range of general and industry-specific environmental, health and safety, building and product standards and other laws and regulations imposed by federal, provincial and local authorities, including those governing the use, storage, handling, generation, treatment, emission, release, discharge and disposal of certain hazardous materials and wastes, the remediation of contaminated soil and ground water, the use and design values of Canfor's products and the health and safety of employees. Further, certain agreements and contracts relating to the ownership or transfer of forestry tenures and licenses are subject to review by applicable regulatory bodies. If Canfor is unable to extend or renew a material license or permit required by such laws, any transfer is challenged by a regulatory body, or if there is a delay in renewing any material approval, license or permit, Canfor's business, financial condition, results of operations and cash flows could be materially adversely affected. Future events such as any changes in these laws and regulations or any change in their interpretation or enforcement, or the discovery of currently unknown conditions, may give rise to additional expenditures or liabilities.

Information Technology

Canfor's information technology systems serve an important role in the operation of its business. Canfor relies on various technologies to access fibre, operate its production facilities, interact with customers, vendors and employees and to report on its business. Interruption, failure or unsuccessful implementation and integration of Canfor's information technology systems could result in material and adverse impacts on the Company's financial condition, operations, production, sales, and reputation and could also result in environmental and physical damage to Company operations or surrounding areas.

Canfor's information technology systems and networks could be interrupted or fail due to a variety of causes, such as natural disaster, fire, power outages, vandalism, or cyber-based attacks. Any such interruption or failure could result in operational disruptions or the misappropriation of sensitive or proprietary data that could subject Canfor to civil and criminal penalties, litigation or have a negative impact on the Company's reputation. There can be no assurance that such disruptions or misappropriations and the resulting repercussions will not negatively impact the Company's cash flows and have a material adverse effect on its business, operations, financial condition and operational results.

Although to date Canfor has not experienced any material losses relating to cyber risks, there can be no assurance that the Company will not incur such losses in the future. Canfor's risk and exposure cannot be fully mitigated due to the nature of these threats. The Company continues to develop and enhance internal controls, policies and procedures designed to protect systems, servers, computers, software, data and networks from attack, damage or unauthorized access remain a priority. Canfor has established a Management Cyber Risk Committee to assess and monitor risk mitigation efforts and to respond to emerging threats. As cyber threats continue to evolve, the Company may be required to expend additional resources to continue to modify or enhance protective measures or to investigate and remediate any security vulnerabilities.

Labour Agreements and Competition for Professional Skilled Labour

In 2017 Canfor negotiated its labour agreement with UNIFOR at its Grande Prairie lumber operation; the new agreement expires October 1, 2022. Canfor Pulp Ltd. negotiated its collective agreements with UNIFOR and PPWC at its Prince George operations in 2017; the new labour agreements expire on April 30, 2021.

Canfor collective agreements with the USW (United Steelworkers) expire on June 30, 2018. The Company's collective agreement with the PPWC (Public and Private Workers of Canada) at its Mackenzie lumber operation expires June 30, 2019. Negotiating new collective agreements may result in increased operating costs because of higher wages or benefits paid to unionized workers. Any inability to negotiate acceptable contracts with the USW as they expire could result in a strike or work stoppage by the affected workers. For all operations regional labour market conditions may cause shortages of both professional and skilled labour, which could have an adverse impact on the operation and management of Canfor's facilities.

Maintenance Obligations and Facility Disruptions

Canfor's manufacturing processes are vulnerable to operational problems that could impair its ability to manufacture its products. Canfor could experience a breakdown in any of its machines, or other important equipment, and from time to time, planned or unplanned maintenance outages that cannot be performed safely or efficiently during operations must be conducted. Such disruptions could cause a significant loss of production, which could have a material adverse effect on Canfor's business, financial condition and operating results.

Residual Fibre Revenues

Wood chips are a residual product of Canfor's lumber manufacturing process and are primarily sold to CPPI. These chips are the principal raw material utilized by CPPI in its pulp manufacturing operations. Canfor has two Fibre Supply Agreements with CPPI, which contain pricing formulas that currently result in CPPI paying Canfor a price for wood chips based on pulp markets and CPPI's product mix. In 2017, Canfor provided approximately 62% of CPPI's chip requirements. If market conditions caused CPPI to cease pulp operations for an extended period of time, Canfor would have a limited market and/or reduced value for its chip supply and this could affect its ability to run its sawmills economically. Similarly, if lumber market conditions or fibre availability were such that Canfor or other suppliers were unable to provide the current volume of chips to CPPI as a result of AAC reductions, lower sawmill production or sawmill closures, whether temporary or permanent, CPPI's chip supply, chip cost and production results could be materially affected.

Bark hog is a residual product of Canfor's lumber manufacturing process. Bark hog has exhibited increasing value to Canfor over the past several years. It is utilized in Canfor's bark-fueled thermal oil energy systems to dry lumber and is sold predominately to Pulp customers, including CPPI, to be used in the generation of steam to manufacture power and heat.

Sales of sawdust and shavings are made primarily to other customers and the demand is increasing and robust. To enhance fibre utilization in northern BC, Canfor has completed the construction and is operating two new wood fuel pellet plants in the BC Interior.

Softwood Lumber Agreement

The Softwood Lumber Agreement expired on October 12, 2015 without being renewed or replaced. On November 25, 2016 a petition was filed by the US Lumber Coalition to the US Department of Commerce and the US International Trade Commission 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 25, 2017. Following this period, CVD duties were not applicable on lumber shipments destined to the US from August 26, 2017 to December 27, 2017. On June 23, 2017, the DOC announced its preliminary anti-dumping duty determination of 7.72% specific to Canfor, to be posted by cash deposits or bonds on the exports of softwood lumber to the US effective June 30, 2017.

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

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

Stumpage Rates

Stumpage is the fee that businesses or individuals pay the Government for harvested timber from Crown land in BC. Stumpage rates in BC are determined using a transaction evidence based timber pricing system known as the Market Pricing System ("MPS"). MPS uses market forces, such as lumber market pricing and the results and characteristics of competitively sold BC Timber Sales ("BCTS") auctions of timber, to establish the market value of timber (and ultimately stumpage rates in BC). For cutting authorities harvested under long-term tenure agreements, an adjustment is made for tenure obligation costs imposed on and incurred by licensees (such as forest management administration and silviculture) before determining final stumpage rates.

The BC Government is scheduled to make its twelfth annual update to the MPS on July 1, 2018. Further changes to the BC Interior market driven stumpage system and resultant stumpage rates could have a material impact on Canfor's business. The Alberta Government will be reviewing their provincial stumpage rates (timber dues); however, the Company is not aware of any planned changes at this point in time.

Transportation Services

Canfor relies primarily on third parties for transportation of its products, as well as delivery of raw materials, a significant portion of which are transported by railroad, trucks and ships. If any of Canfor's third party transportation providers were to fail to deliver the raw materials or products or distribute them in a timely manner, Canfor may be unable to sell those products at full value, or at all, or unable to manufacture its products in response to customer demand, which could have a material adverse effect on Canfor's financial condition and operating results. In addition, if any of these third parties were to cease operations, suffer labour-related disruptions, or cease doing business with Canfor, the Company's operations or cost structure may be adversely impacted. Transportation services may also be impacted by seasonal factors, which could impact the timely delivery of raw materials and distribution of products to customers and have a resulting material adverse impact on Canfor's financial condition and operating results. As a result of increased government regulation on truck driver work hours and rail capacity constraints, access to adequate transportation capacity has at times been strained and could affect Canfor's ability to move its log, lumber and wood chips at market competitive prices.

Wood Dust Management

The wood products industry and government regulators continue to make the management of combustible wood dust within sawmill manufacturing facilities a high priority. Specifically, Canfor continues to take extensive steps to mitigate the risks of a combustible dust incident in our facilities, including significant capital investment, a formalized wood dust control program, and extensive employee training. Regulatory agencies across the Province of British Columbia, including WorkSafeBC, Technical Safety BC, and the Office of the Fire Commissioner have implemented various regulatory and inspection initiatives related to wood dust management. Additional regulatory initiatives up to and including stop work conditions within the industry have occurred, and remain a possibility.

OUTSTANDING SHARE DATA

At February 22, 2018, based on trade date, there were 128,625,480 common shares issued and outstanding.

DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Company has established disclosure controls and procedures to ensure that information disclosed in this MD&A and the related financial statements was properly recorded, processed, summarized and reported to the Board of Directors and the Audit Committee. The Company's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") have evaluated the effectiveness of these disclosure controls and procedures for the year ended December 31, 2017, and have concluded that they are effective.

The CEO and CFO acknowledge responsibility for the design of ICFR, and confirm that there were no changes in these controls that occurred during the year ended December 31, 2017 which materially affected, or are reasonably likely to materially affect, the Company's ICFR. Based upon their evaluation of these controls for the year ended December 31, 2017, the CEO and CFO have concluded that these controls are operating effectively.

Additional information about the Company, including its 2017 Annual Information Form, is available at www.sedar.com or at www.canfor.com.