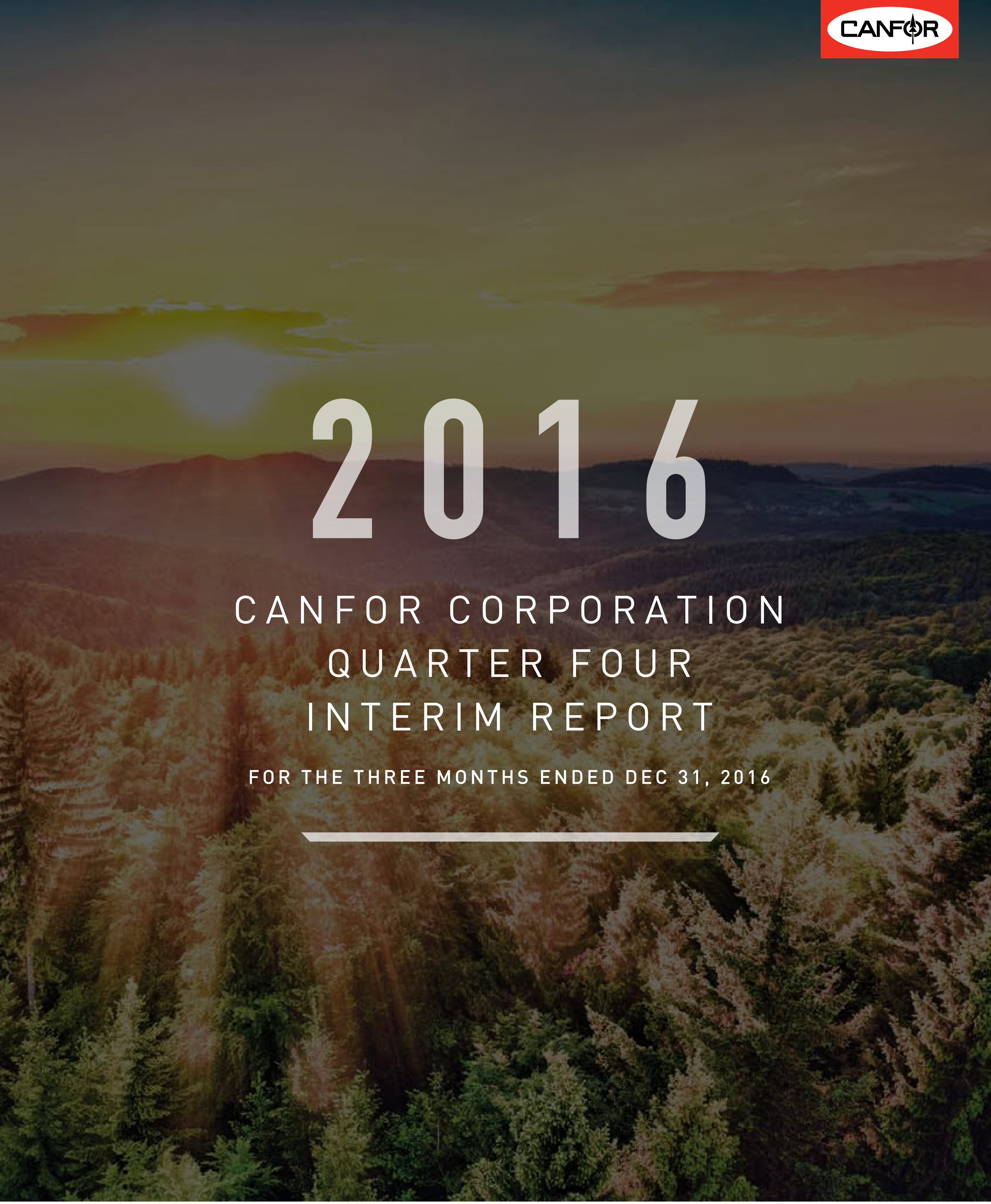

2016

CANFOR CORPORATION QUARTER FOUR INTERIM REPORT

FOR THE THREE MONTHS ENDED DEC 31, 2016

To Our Shareholders

Canfor Corporation reported net income attributable to shareholders ("shareholder net income") of $38.0 million, or $0.29 per share, for the fourth quarter of 2016, compared to a net income attributable to shareholders of $50.9 million, or $0.38 per share, for the third quarter of 2016, and shareholder net income of $1.6 million, or $0.01 per share, for the fourth quarter of 2015. For the twelve months ended December 31, 2016, the Company's shareholder net income was $150.9 million, or $1.14 per share, compared to shareholder net income of $24.7 million, or $0.18 per share, reported for the 2015 year.

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

(millions of Canadian dollars, except per share amounts)	Q4 2016	Q3 2016	YTD 2016	Q4 2015	YTD 2015
Sales	**$ 1,043.5**	$ 1,101.2	**$ 4,234.9**	$ 1,053.0	$ 3,925.3
Operating income before amortization[1]	**$ 135.6**	$ 158.0	**$ 530.9**	$ 94.9	$ 378.2
Operating income[1]	**$ 72.0**	$ 97.4	**$ 288.6**	$ 35.0	$ 164.2
Net income attributable to equity shareholders of the Company	**$ 38.0**	$ 50.9	**$ 150.9**	$ 1.6	$ 24.7
Net income per share attributable to equity shareholders of the Company, basic and diluted	**$ 0.29**	$ 0.38	**$ 1.14**	$ 0.01	$ 0.18
Adjusted shareholder net income	**$ 37.7**	$ 51.7	**$ 136.8**	$ 7.9	$ 58.8
Adjusted shareholder net income per share, basic and diluted	**$ 0.29**	$ 0.39	**$ 1.03**	$ 0.06	$ 0.43

[1] Adjusted for one-time items, including a $2.0 million recovery related to lower estimated Canal Flats closure costs recorded in the fourth quarter of 2016, a gain of $15.5 million related to a legal settlement in the second quarter of 2016, a $3.2 million expense associated with pension plan legislative changes in the fourth quarter of 2015 and a $19.4 million charge associated with the permanent closure of the Canal Flats sawmill in the third quarter of 2015.

The Company's adjusted shareholder net income for the fourth quarter of 2016 was $37.7 million, or $0.29 per share, compared to an adjusted shareholder net income of $51.7 million, or $0.39 per share, for the third quarter of 2016, and an adjusted shareholder net income of $7.9 million, or $0.06 per share for the fourth quarter of 2015. For 2016, the Company's adjusted shareholder net income was $136.8 million, or $1.03 per share, compared to $58.8 million, or $0.43 per share, for 2015.

The Company reported operating income, adjusted for one-time items, of $72.0 million for the fourth quarter of 2016, down $25.4 million from operating income of $97.4 million for the third quarter of 2016, with the decline reflecting lower operating earnings in both the lumber and pulp and paper segments. In the lumber segment, seasonally lower lumber prices, along with challenging weather conditions, which impacted log deliveries and productivity in Western Canada, were the major contributing factors to a $19.7 million decline in adjusted operating income. The Company's pulp and paper segment results also reflected the inclement weather conditions, as well as the pre-tax write-down of $7.0 million of advances made in connection with the biofuels technology initiative with Licella Fibre Fuels Pty. Ltd. ("Licella"), a subsidiary of Ignite Energy Resources Ltd. Notwithstanding the future benefits that may result from this innovative effort, the write-down reflected the research and development nature of the advances.

North American lumber demand remained steady in the fourth quarter of 2016, with US housing starts, on a seasonally adjusted basis, moderately higher than the prior quarter, averaging 1,216,000 units. Canadian housing starts in the fourth quarter of 2016 remained solid, averaging 201,000 units on a seasonally adjusted basis. Offshore lumber shipments showed a modest increase in the fourth quarter of 2016 reflecting steadily improving demand in key offshore lumber markets, primarily China and Japan.

Western Spruce/Pine/Fir ("SPF") lumber unit sales realizations increased slightly compared to the third quarter of 2016 as the benefit of a 2 cent, or 2%, weaker Canadian dollar and a higher-value product mix offset a slight decline in the benchmark North American Random Lengths Western SPF 2x4 #2&Btr lumber price, which was down US$7 per Mfbm, or 2%. Southern Yellow Pine ("SYP") lumber unit sales realizations were down slightly compared to the prior quarter largely reflecting seasonally lower prices for wide-width SYP products.

Total lumber shipments and production showed modest declines compared to the prior quarter, largely due to the weather-related challenges and additional statutory holidays, which resulted in lower production volumes in the current quarter. Unit manufacturing costs in the fourth quarter of 2016 were moderately higher than the previous quarter largely reflecting seasonally higher energy costs and the unfavourable impact on unit costs from the aforementioned weather-related disruption to operations and logging activities.

Global softwood pulp markets were relatively stable through most of the fourth quarter of 2016 as evidenced by the average China US-dollar NBSK pulp list price, as published by RISI, remaining at US$595 per tonne. NBSK pulp unit sales realizations were broadly in line with the third quarter of 2016, as the weaker Canadian dollar was offset by slightly increased pricing pressure in North America. BCTMP pulp unit sales realizations increased significantly, reflecting the continued improvement in BCTMP markets. Energy revenues moderately increased during the current quarter, for the most part, reflecting increased power generation and seasonally higher energy prices.

Pulp shipments were down 14% from the previous quarter principally reflecting weather-related impacts on shipments, including a delayed vessel shipment over the year end. Pulp production was 3% lower than the previous quarter, primarily due to the severe weather conditions, which more than offset the impacts of scheduled maintenance outages in the previous quarter. Pulp unit manufacturing costs were up slightly from the previous quarter, reflecting higher energy usage combined with seasonally higher energy costs, as well as the unfavourable per unit impact of lower production volumes.

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. Nevertheless, the US Department of Commerce will continue to conduct its antidumping and countervailing duty investigations on imports of these products from Canada, and is expected to announce its countervailing duty in the second quarter of 2017 and its preliminary antidumping duty determination approximately 60 days thereafter. Canfor continues to cooperate with the Provincial and Federal Governments of Canada who have indicated they will vigorously defend the interests of the industry.

Looking ahead, the US housing market is forecast to continue its gradual recovery through 2017. North American lumber consumption is projected to improve, reflecting steady demand in the residential construction market and continued strength from the repair and remodelling sector. There remains a risk of material antidumping and countervailing duties being imposed on Canadian lumber shipments destined to the US, absent a new Softwood Lumber Agreement. The Company anticipates marketplace volatility as investigations progress and determinations are made. For the Company's key offshore lumber markets, demand is anticipated to show a modest increase. In the pulp and paper segment, the Company announced an increase of US$20 per tonne for NBSK pulp list price for China, equating to US$630 per tonne, and an increase of US$10 per tonne for BCTMP. For the month of February 2017, the Company announced a further US$20 per tonne increase to both its NBSK and BCTMP pulp list prices to China. Global softwood markets are currently seeing positive pricing momentum, for both NBSK and BCTMP, and this is anticipated to continue into the second quarter of 2017. Subsequent to year end, on January 2, 2017, the Company completed the final phase of the purchase of Beadles Lumber Company and Balfour Lumber Company Inc., increasing its ownership interest to 100%.

Refer to the Company's annual Management's Discussion and Analysis for further discussion on the Company's results for the fourth quarter of 2016 on page 30.

Michael J. Korenberg
Chairman

Don B. Kayne
President and Chief Executive Officer

Canfor Corporation
Condensed Consolidated Balance Sheets

(millions of Canadian dollars, unaudited)	As at December 31, 2016	As at December 31, 2015
ASSETS		
Current assets		
Cash and cash equivalents	**$ 156.6**	$ 97.5
Accounts receivable - Trade	**164.2**	191.8
- Other	**66.5**	61.1
Inventories	**549.0**	587.2
Prepaid expenses	**50.6**	53.2
Total current assets	**986.9**	990.8
Property, plant and equipment	**1,460.8**	1,445.1
Timber licenses	**532.7**	515.2
Goodwill and other intangible assets	**238.8**	241.0
Long-term investments and other	**50.7**	98.6
Retirement benefit surplus	**5.9**	2.7
Deferred income taxes, net	**1.3**	1.2
Total assets	**$ 3,277.1**	$ 3,294.6
LIABILITIES		
Current liabilities		
Operating loans	**$ 28.0**	$ 158.0
Accounts payable and accrued liabilities	**384.1**	350.3
Current portion of deferred reforestation obligations	**48.5**	50.7
Forward purchase liabilities	**41.7**	76.1
Total current liabilities	**502.3**	635.1
Long-term debt	**448.0**	456.2
Retirement benefit obligations	**302.2**	258.6
Deferred reforestation obligations	**56.9**	61.6
Other long-term liabilities	**23.7**	20.1
Forward purchase liability	**-**	43.0
Deferred income taxes, net	**205.5**	192.3
Total liabilities	**$ 1,538.6**	$ 1,666.9
EQUITY		
Share capital	**$ 1,047.7**	$ 1,047.7
Contributed surplus and other equity	**(4.6)**	(74.5)
Retained earnings	**351.7**	257.7
Accumulated other comprehensive income	**88.9**	100.0
Total equity attributable to equity shareholders of the Company	**1,483.7**	1,330.9
Non-controlling interests	**254.8**	296.8
Total equity	**$ 1,738.5**	$ 1,627.7
Total liabilities and equity	**$ 3,277.1**	$ 3,294.6

Subsequent Event (Note 7)

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

APPROVED BY THE BOARD

Director, R.S. Smith

Director, M.J. Korenberg

Canfor Corporation
Condensed Consolidated Statements of Income

(millions of Canadian dollars, except per share data, unaudited)	3 months ended December 31, **2016**	2015	12 months ended December 31, **2016**	2015
Sales	**$ 1,043.5**	$ 1,053.0	**$ 4,234.9**	$ 3,925.3
Costs and expenses				
Manufacturing and product costs	**729.0**	752.6	**2,947.2**	2,770.4
Freight and other distribution costs	**150.5**	176.1	**635.8**	646.9
Export taxes	**-**	3.3	**-**	28.1
Amortization	**63.6**	59.9	**242.3**	214.0
Selling and administration costs	**26.7**	28.9	**103.7**	100.2
Restructuring, mill closure and severance costs	**0.3**	1.0	**3.4**	24.7
	970.1	1,021.8	**3,932.4**	3,784.3
Equity income	**0.6**	0.6	**3.6**	0.6
Operating income	**74.0**	31.8	**306.1**	141.6
Finance expense, net	**(8.0)**	(7.6)	**(32.8)**	(24.9)
Foreign exchange gain (loss) on long-term debt	**(3.1)**	(5.9)	**4.1**	(5.9)
Gain (loss) on derivative financial instruments	**2.1**	2.1	**2.9**	(28.1)
Other income (expense), net (Note 6)	**(4.1)**	3.5	**(12.5)**	27.7
Net income before income taxes	**60.9**	23.9	**267.8**	110.4
Income tax expense (Note 2)	**(16.7)**	(4.3)	**(63.9)**	(18.5)
Net income	**$ 44.2**	$ 19.6	**$ 203.9**	$ 91.9
Net income attributable to:				
Equity shareholders of the Company	**$ 38.0**	$ 1.6	**$ 150.9**	$ 24.7
Non-controlling interests	**6.2**	18.0	**53.0**	67.2
Net income	**$ 44.2**	$ 19.6	**$ 203.9**	$ 91.9
Net income per common share: (in Canadian dollars)				
Attributable to equity shareholders of the Company				
- Basic and diluted (Note 3)	**$ 0.29**	$ 0.01	**$ 1.14**	$ 0.18

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

Canfor Corporation
Condensed Consolidated Statements of Other Comprehensive Income (Loss)

(millions of Canadian dollars, unaudited)	3 months ended December 31, **2016**	3 months ended December 31, 2015	12 months ended December 31, **2016**	12 months ended December 31, 2015
Net income	**$ 44.2**	$ 19.6	**$ 203.9**	$ 91.9
Other comprehensive income (loss)				
Items that will not be recycled through net income:				
Defined benefit plan actuarial gains (losses)	**20.3**	(2.8)	**(50.9)**	28.4
Income tax recovery (expense) on defined benefit plan actuarial gains (losses) (Note 2)	**(5.3)**	0.8	**13.2**	(7.3)
	15.0	(2.0)	**(37.7)**	21.1
Items that may be recycled through net income:				
Foreign exchange translation of foreign operations, net of tax	**10.4**	15.5	**(11.1)**	72.8
Change in fair value of available-for-sale financial instruments, net of tax	**(0.2)**	-	**-**	-
Other comprehensive income (loss), net of tax	**25.2**	13.5	**(48.8)**	93.9
Total comprehensive income	**$ 69.4**	$ 33.1	**$ 155.1**	$ 185.8
Total comprehensive income attributable to:				
Equity shareholders of the Company	**$ 62.1**	$ 14.9	**$ 107.4**	$ 115.9
Non-controlling interests	**7.3**	18.2	**47.7**	69.9
Total comprehensive income	**$ 69.4**	$ 33.1	**$ 155.1**	$ 185.8

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

Canfor Corporation
Condensed Consolidated Statements of Changes in Equity

(millions of Canadian dollars, unaudited)	3 months ended December 31, 2016	3 months ended December 31, 2015	12 months ended December 31, 2016	12 months ended December 31, 2015
Share capital				
Balance at beginning of period	**$ 1,047.7**	$ 1,056.0	**$ 1,047.7**	$ 1,068.0
Share purchases (Note 3)	**-**	(8.3)	**-**	(20.3)
Balance at end of period	**$ 1,047.7**	$ 1,047.7	**$ 1,047.7**	$ 1,047.7
Contributed surplus and other equity				
Balance at beginning of period	**$ (4.6)**	$ (74.5)	**$ (74.5)**	$ 31.9
Forward purchase liabilities related to acquisitions	**-**	-	**69.9**	(106.4)
Balance at end of period	**$ (4.6)**	$ (74.5)	**$ (4.6)**	$ (74.5)
Retained earnings				
Balance at beginning of period	**$ 299.9**	$ 272.7	**$ 257.7**	$ 260.1
Net income attributable to equity shareholders of the Company	**38.0**	1.6	**150.9**	24.7
Defined benefit plan actuarial gains (losses), net of tax	**13.8**	(2.2)	**(32.4)**	18.4
Share purchases (Note 3)	**-**	(11.7)	**-**	(38.9)
Elimination of non-controlling interests	**-**	-	**(20.0)**	-
Acquisition of non-controlling interests	**-**	(2.7)	**(4.5)**	(6.6)
Balance at end of period	**$ 351.7**	$ 257.7	**$ 351.7**	$ 257.7
Accumulated other comprehensive income				
Balance at beginning of period	**$ 78.6**	$ 84.5	**$ 100.0**	$ 27.2
Foreign exchange translation of foreign operations, net of tax	**10.4**	15.5	**(11.1)**	72.8
Change in fair value of available-for-sale financial instruments, net of tax	**(0.1)**	-	**-**	-
Balance at end of period	**$ 88.9**	$ 100.0	**$ 88.9**	$ 100.0
Total equity attributable to equity shareholders of the Company	**$ 1,483.7**	$ 1,330.9	**$ 1,483.7**	$ 1,330.9
Non-controlling interests				
Balance at beginning of period	**$ 254.5**	$ 289.8	**$ 296.8**	$ 250.4
Net income attributable to non-controlling interests	**6.2**	18.0	**53.0**	67.2
Defined benefit plan actuarial gains (losses) attributable to non-controlling interests, net of tax	**1.2**	0.2	**(5.3)**	2.7
Change in fair value of available-for-sale financial instruments, net of tax	**(0.1)**	-	**-**	-
Distributions to non-controlling interests	**(7.0)**	(4.0)	**(30.1)**	(56.8)
Elimination of non-controlling interests	**-**	-	**(39.7)**	-
Acquisition of non-controlling interests	**-**	(7.0)	**(19.9)**	(19.0)
Non-controlling interests arising on acquisitions	**-**	(0.2)	**-**	52.3
Balance at end of period	**$ 254.8**	$ 296.8	**$ 254.8**	$ 296.8
Total equity	**$ 1,738.5**	$ 1,627.7	**$ 1,738.5**	$ 1,627.7

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

Canfor Corporation
Condensed Consolidated Statements of Cash Flows

(millions of Canadian dollars, unaudited)	3 months ended December 31, **2016**	3 months ended December 31, 2015	12 months ended December 31, **2016**	12 months ended December 31, 2015
Cash generated from (used in):				
Operating activities				
Net income	**$ 44.2**	$ 19.6	**$ 203.9**	$ 91.9
Items not affecting cash:				
Amortization	**63.6**	59.9	**242.3**	214.0
Income tax expense	**16.7**	4.3	**63.9**	18.5
Long-term portion of deferred reforestation obligations	**(3.7)**	-	**(4.8)**	(2.0)
Foreign exchange loss (gain) on long-term debt	**3.1**	5.9	**(4.1)**	5.9
Changes in mark-to-market value of derivative financial instruments	**(0.5)**	(5.8)	**(4.9)**	(4.1)
Employee future benefits	**3.3**	5.7	**13.0**	16.8
Finance expense, net	**8.0**	7.6	**32.8**	24.9
Gain on legal settlement, net	**-**	-	**(15.5)**	-
Equity income	**(0.6)**	(0.6)	**(3.6)**	(0.6)
Operations closure provisions	**(2.0)**	-	**(2.0)**	19.4
Write-down of advances to Licella (Note 6)	**7.0**	-	**7.0**	-
Other, net	**1.3**	4.9	**1.7**	3.4
Defined benefit plan contributions, net	**(7.7)**	(6.1)	**(33.3)**	(5.9)
Cash received from legal settlement	**-**	-	**16.3**	-
Income taxes paid, net	**0.2**	(2.1)	**(29.9)**	(61.3)
	132.9	93.3	**482.8**	320.9
Net change in non-cash working capital (Note 4)	**28.1**	(58.5)	**101.0**	(66.3)
	161.0	34.8	**583.8**	254.6
Financing activities				
Change in operating bank loans	**(68.0)**	(43.0)	**(130.0)**	90.0
Proceeds from long-term debt, net	**-**	263.4	**-**	388.4
Repayment of long-term debt, net	**-**	-	**-**	(175.0)
Finance expenses paid	**(7.5)**	(3.3)	**(22.0)**	(12.7)
Share purchases (Note 3)	**-**	(20.0)	**-**	(59.2)
Acquisition of non-controlling interests	**-**	(9.6)	**(24.7)**	(25.3)
Cash distributions paid to non-controlling interests	**(5.4)**	(4.0)	**(28.5)**	(56.8)
	(80.9)	183.5	**(205.2)**	149.4
Investing activities				
Additions to property, plant and equipment, timber and intangible assets, net	**(63.4)**	(83.7)	**(233.8)**	(240.0)
Acquisitions	**-**	(123.9)	**(83.9)**	(263.4)
Advances to Licella (Note 6)	**(3.5)**	-	**(7.0)**	-
Change in restricted cash	**-**	-	**-**	50.2
Timber investment loan	**-**	-	**-**	(30.0)
Proceeds on sale of Lakeland Winton	**-**	-	**-**	15.0
Other, net	**(0.2)**	(3.1)	**6.9**	(9.8)
	(67.1)	(210.7)	**(317.8)**	(478.0)
Foreign exchange gain (loss) on cash and cash equivalents	**1.8**	3.2	**(1.7)**	13.2
Increase (decrease) in cash and cash equivalents*	**14.8**	10.8	**59.1**	(60.8)
Cash and cash equivalents at beginning of period*	**141.8**	86.7	**97.5**	158.3
Cash and cash equivalents at end of period*	**$ 156.6**	$ 97.5	**$ 156.6**	$ 97.5

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

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

1. Basis of Preparation

These condensed consolidated interim financial statements (the "financial statements") include the accounts of Canfor Corporation and its subsidiary entities, including Canfor Pulp Products Inc. ("CPPI"), hereinafter referred to as "Canfor" or "the Company."

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

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

These financial statements were authorized for issue by the Company's Board of Directors on February 8, 2017.

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

Accounting Standards Issued and Not Applied

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

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

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

2. Income Taxes

	3 months ended December 31,		12 months ended December 31,	
(millions of Canadian dollars, unaudited)	**2016**	2015	**2016**	2015
Current	**$ (2.8)**	$ (6.4)	**$ (37.9)**	$ (32.6)
Deferred	**(13.9)**	2.1	**(26.0)**	14.1
Income tax expense	**$ (16.7)**	$ (4.3)	**$ (63.9)**	$ (18.5)

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

	3 months ended December 31,		12 months ended December 31,	
(millions of Canadian dollars, unaudited)	**2016**	2015	**2016**	2015
Income tax expense at statutory rate of 26.0%	**$ (15.8)**	$ (6.2)	**$ (69.6)**	$ (28.7)
Add (deduct):				
Non-taxable income related to non-controlling interests	**0.4**	0.9	**6.7**	3.9
Entities with different income tax rates and other tax adjustments	**0.9**	1.8	**(0.4)**	6.6
Permanent difference from capital gains and other non-deductible items	**(2.2)**	(0.8)	**(0.6)**	(0.3)
Income tax expense	**$ (16.7)**	$ (4.3)	**$ (63.9)**	$ (18.5)

In addition to the amounts recorded to net income, a tax expense of $5.3 million was recorded in other comprehensive income (loss) for the three months ended December 31, 2016 (three months ended December 31, 2015 - recovery of $0.8 million) in relation to the actuarial gains/losses on the defined benefit plans. For the twelve months ended December 31, 2016, the tax recovery was $13.2 million (twelve months ended December 31, 2015 - expense of $7.3 million).

Also included in other comprehensive income (loss) for the three months ended December 31, 2016 was a tax expense of $0.8 million related to foreign exchange differences on translation of investments in foreign operations (three months ended December 31, 2015 - expense of $1.4 million). For the twelve months ended December 31, 2016, the tax recovery was $1.2 million (twelve months ended December 31, 2015 - expense of $6.0 million).

3. Earnings Per Share and Normal Course Issuer Bid

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

	3 months ended December 31,		12 months ended December 31,	
	2016	2015	**2016**	2015
Weighted average number of common shares	**132,804,573**	133,309,012	**132,804,573**	134,068,255

On March 7, 2016, the Company renewed its normal course issuer bid whereby it can purchase for cancellation up to 6,640,227 common shares or approximately 5% of its issued and outstanding common shares as of March 1, 2016. The renewed normal course issuer bid is set to expire on March 6, 2017. During the fourth quarter of 2016, Canfor did not purchase any common shares. As at December 31, 2016 and February 8, 2017 there were 132,804,573 common shares of the Company outstanding.

Under a separate normal course issuer bid, CPPI can purchase for cancellation up to 3,446,139 common shares or approximately 5% of its issued and outstanding common shares as of March 1, 2016. CPPI did not purchase any common shares from non-controlling shareholders during the fourth quarter of 2016. At December 31 2016 and February 8, 2017, Canfor's ownership interest in CPPI was 53.6%.

4. Net Change in Non-Cash Working Capital

	3 months ended December 31,		12 months ended December 31,	
(millions of Canadian dollars, unaudited)	**2016**	2015	**2016**	2015
Accounts receivable	**$ 34.9**	$ (51.0)	**$ 32.5**	$ (76.7)
Inventories	**(13.2)**	(23.1)	**45.7**	(22.9)
Prepaid expenses	**29.2**	30.5	**4.2**	10.6
Accounts payable and accrued liabilities and current portion of deferred reforestation obligations	**(22.8)**	(14.9)	**18.6**	22.7
Net decrease (increase) in non-cash working capital	**$ 28.1**	$ (58.5)	**$ 101.0**	$ (66.3)

5. Segment Information

Canfor has two reportable segments (lumber segment and pulp and paper segment), which offer different products and are managed separately because they require different production processes and marketing strategies.

Sales between segments are accounted for at prices that approximate fair value. These include sales of residual fibre from the lumber segment to the pulp and paper segment for use in the pulp production process.

Information regarding the operations of each reportable segment is included in the table below.

The Company's panels business does not meet the criteria to be reported fully as a separate segment and is included in Unallocated & Other below.

(millions of Canadian dollars, unaudited)	Lumber	Pulp & Paper	Unallocated & Other	Elimination Adjustment	Consolidated
3 months ended December 31, 2016					
Sales to external customers	**$ 785.7**	**$ 257.8**	**$ -**	**$ -**	**$ 1,043.5**
Sales to other segments	**32.3**	**-**	**-**	**(32.3)**	**-**
Operating income (loss)	**57.4**	**22.9**	**(6.3)**	**-**	**74.0**
Amortization	**43.6**	**19.2**	**0.8**	**-**	**63.6**
Capital expenditures[1]	**42.2**	**18.3**	**2.9**	**-**	**63.4**
3 months ended December 31, 2015					
Sales to external customers	$ 721.8	$ 331.2	$ -	$ -	$ 1,053.0
Sales to other segments	46.8	-	-	(46.8)	-
Operating income (loss)	3.7	38.6	(10.5)	-	31.8
Amortization	41.1	17.6	1.2	-	59.9
Capital expenditures[1]	53.7	27.6	2.4	-	83.7
12 months ended December 31, 2016					
Sales to external customers	**$ 3,133.2**	**$ 1,101.7**	**$ -**	**$ -**	**$ 4,234.9**
Sales to other segments	**147.1**	**0.2**	**-**	**(147.3)**	**-**
Operating income (loss)	**237.4**	**98.2**	**(29.5)**	**-**	**306.1**
Amortization	**164.4**	**73.8**	**4.1**	**-**	**242.3**
Capital expenditures[1]	**161.0**	**64.0**	**8.8**	**-**	**233.8**
Identifiable assets	**2,257.3**	**785.2**	**234.6**	**-**	**3,277.1**
12 months ended December 31, 2015					
Sales to external customers	$ 2,740.1	$ 1,185.2	$ -	$ -	$ 3,925.3
Sales to other segments	168.2	-	-	(168.2)	-
Operating income (loss)	30.2	144.8	(33.4)	-	141.6
Amortization	144.1	65.4	4.5	-	214.0
Capital expenditures[1]	161.7	68.3	10.0	-	240.0
Identifiable assets	2,259.9	823.9	210.8	-	3,294.6

[1]Capital expenditures represent cash paid for capital assets during the periods. Pulp & Paper includes capital expenditures by CPPI that were partially financed by government grants. Capital expenditures exclude the assets purchased as part of the acquisitions of Scotch & Gulf Lumber, LLC, Beadles Lumber Company & Balfour Lumber Company Inc., Southern Lumber Company Inc. and Anthony Forest Products Company in 2015, and Wynndel Box and Lumber Ltd. in 2016.

6. Licella Pulp Joint Venture

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

Under IFRS 11, *Joint Arrangements*, the joint venture is classified as a joint operation and CPPI will recognize its assets, liabilities and transactions, including its share of those incurred jointly, in its consolidated financial statements. For the year ended December 31, 2016, CPPI's share of the joint venture's expenses was $1.6 million, which has been recognized in manufacturing and product costs. CPPI is required to contribute the first $20.0 million of any funding requirements, including cash and non-cash contributions, to the joint venture.

In conjunction with the joint venture agreement and CPPI's commitment to innovation and the development of potentially transforming technology, CPPI provided a convertible credit facility to IER, the parent company of Licella, which matures on June 21, 2019. The advances on this credit facility are convertible, at CPPI's option, into common shares of IER.

With regards to the convertible credit facility, during 2016, CPPI advanced $7.0 million to Licella and exercised its option to convert $3.5 million of the amount advanced into common shares of IER. Due to the inherent nature of this type of innovation and technology development, CPPI considers these advances to be substantially research and development in nature. As a result, at December 31, 2016, CPPI has recognized losses of $7.0 million in other income (expense). This reflects CPPI's consideration of the intrinsic risk associated with these advances.

7. Subsequent Event

Subsequent to year end, on January 2, 2017, Canfor completed the final phase of the acquisition of Beadles Lumber Company & Balfour Lumber Company Inc. ("Beadles & Balfour") for $41.8 million (US$31.1 million) bringing Canfor's interest in Beadles & Balfour from 55% to 100%.