2018

CANFOR CORPORATION

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, 2018 relative to the year ended December 31, 2017, and the financial position of the Company at December 31, 2018. 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, 2018 and 2017. 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 (Loss) before Amortization and Adjusted Operating Income (Loss) which Canfor considers to be a relevant indicator for measuring trends in the performance of each of its operating segments and the Company's ability to generate funds to meet its debt repayment and capital expenditure requirements. Reference is also made to Adjusted Shareholder Net Income (Loss) (calculated as Shareholder Net Income (Loss) less specific items affecting comparability with prior periods – for the full calculation, see reconciliation included in the section "Overview of Consolidated Results – 2018 Compared to 2017") and Adjusted Shareholder Net Income (Loss) per Share (calculated as Adjusted Shareholder Net Income (Loss) divided by the weighted average number of shares outstanding during the period). Operating Income (Loss) before Amortization, Adjusted Operating Income (Loss), Adjusted Shareholder Net Income (Loss) and Adjusted Shareholder Net Income (Loss) per Share are not generally accepted earnings measures under IFRS and should not be considered as an alternative to net income (loss) or cash flows as determined in accordance with IFRS. As there is no standardized method of calculating these measures, Canfor's Operating Income (Loss) before Amortization, Adjusted Operating Income (Loss), Adjusted Shareholder Net Income (Loss) and Adjusted Shareholder Net Income (Loss) per Share may not be directly comparable with similarly titled measures used by other companies. Reconciliations of Operating Income (Loss) before Amortization to Operating Income (Loss) and Adjusted Shareholder Net Income (Loss) to Net Income (Loss) reported in accordance with IFRS are included in this MD&A.

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 21, 2019.

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.

2018 HIGHLIGHTS

The Company generated strong financial results in 2018 with record-high pulp and paper segment earnings and solid lumber segment operating income. The latter was achieved despite major challenges presented by significant log supply challenges and log cost increases in British Columbia ("BC"), severe transportation issues in the first half of the year, extreme weather across North America and one of the worst forest fire seasons in BC, as well as significant market volatility during the year. Consolidated operating income was $608.6 million, which was the highest reported operating income in over 10 years, and up $51.2 million, or 9%, from 2017.

North American lumber demand was solid across all segments of the market over 2018 as a whole, with the US housing market continuing its ongoing, slow but gradual recovery. Strong underlying North American and offshore demand, in combination with weather-related supply constraints early in the year, resulted in limited available inventories and an unprecedented increase in Western Spruce/Pine/Fir ("Western SPF") and Southern Yellow Pine ("SYP") benchmark lumber prices, which reached record-high levels in the second quarter of 2018. As supply constraints slowly alleviated, lumber prices reversed sharply in the second half of 2018, as higher inventory levels throughout the supply chain coincided with modestly lower demand, in part attributable to higher mortgage rates and home prices. In the fourth quarter of 2018, a combination of significant erosion of Western SPF prices, a spike in market-based stumpage rates in BC, and log supply constraints resulting from the worst fire season in recorded history in BC, led to the Company curtailing approximately 100 million board feet of production at its BC lumber operations, with a further 95 million board feet of curtailment subsequently announced for the first quarter of 2019.

Notwithstanding the significant market volatility experienced through 2018, average benchmark lumber prices remained well ahead of 2017 levels. Western SPF and SYP prices reached record highs at $655/Mfbm and $623/Mfbm, respectively, in the second quarter of 2018, before declining dramatically to lows of $298/Mfbm and $417/Mfbm, respectively, in the fourth quarter, largely reflecting excess inventory and muted demand as a result of uncertainty in the housing market and growing global trade tensions.

As a result of the imposition of countervailing ("CVD") and anti-dumping duties ("ADD") by the US Department of Commerce ("DOC") in the latter half 2017, the Company has posted cumulative cash deposits on Canadian lumber exports destined to the US of $284.0 million as at December 31, 2018 reflecting the final published ADD rate of 7.28% and CVD rate of 13.24%, while the ADD expense has been accrued at 2.9% for the applicable 2017 and 2018 combined period, an increase of 1.8% from 2017. Accordingly, Canfor has recorded a countervailing and anti-dumping duty expense at a combined rate of 16.14%, which resulted in a net expense of $169.1 million being recorded in 2018, an increase of $124.8 million from 2017.

The sharp increase in Western SPF benchmark lumber prices in the first half of 2018, even after adjusting for the impact of duties, resulted in historically-high unit sales realizations, which subsequently translated into significant market-driven increases in stumpage in BC later in the year, particularly in the fourth quarter of 2018. Unit log costs in Western Canada through 2018 also reflected significant increases in purchased wood costs as the favourable lumber prices combined with declining fibre availability in the BC Interior, saw elevated bidding activity and competition for logs made available by BC Timber sales. In contrast, 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 market cost pressures.

Lumber production and shipments in 2018 reflected the impact of the aforementioned production curtailments, difficult winter weather conditions early in the year, another year of forest fires in BC, and two major hurricanes in the US South. Despite the challenging operating conditions, the Company continued to benefit from its top-line revenue and financial margin focus, aided by a continued shift into greener fibre in Western Canada, targeted capital spending and disciplined management of controllable costs.

Overall operating results for the lumber segment were $390.5 million, down $51.4 million from the previous year as significantly higher Western SPF and SYP lumber US-dollar prices through much of 2018 were more than offset by market-driven increases in unit log costs in Western Canada, increased duty expense year-over-year, as well as the impact of production curtailments in 2018 and a $36.7 million write-down of inventory reflecting the steep decline in lumber prices towards the end of the year.

Global pulp market conditions were favourable for pulp producers through most of 2018. Prices to China, the world's largest consumer of softwood pulp, stayed at historical-high levels for most of 2018 before a falloff in demand later in the year resulted in a sharp decline in prices. For the 2018 year as a whole, Northern Bleached Softwood Kraft ("NBSK") pulp list prices to China averaged US$878 per tonne, an increase of US$166 per tonne, or 23%, over 2017. Market fundamentals were also positive in North America and Europe, with prices increasing steadily in both regions over the year. North American NBSK pulp list prices averaged US$1,337 per tonne for 2018, up US$232 per tonne, or 21% from 2017, with discounts largely unchanged year-over-year. Bleached Chemi-Thermo Mechanical Pulp ("BCTMP") prices saw similarly strong markets throughout 2018 before a more modest decline near the end of the year.

Operating income for the pulp and paper segment were $246.6 million, up $92.0 million from the previous year, as higher NBSK pulp unit sales realizations more than offset the impact of unscheduled production outages in the latter part of 2018. The most significant outage related to an extended fall maintenance outage on one production line at Canfor Pulp Products Inc.'s ("CPPI") Northwood NBSK pulp mill to enable necessary tube replacements to its No. 5 recovery boiler, rectifying damage discovered during routine preventative maintenance inspections in the early fall. Capital-related downtime associated with CPPI's energy reduction project at its Taylor BCTMP mill, as well as a disruption following a third-party natural gas explosion near Prince George in the fall, also contributed to lower production year-over-year. Unit manufacturing costs reflected higher chemical, energy and maintenance spend related to the aforementioned downtime, as well as market-related increases in fibre costs.

The Company maintained its strong balance sheet position in 2018, as it continued to apply a disciplined approach to cash allocation, while retaining a focus on internal investment and growth. Solid progress continued to be made on its previously announced US$125 million organic growth initiative in the US South and included the completion of various capital projects at the Company's Moultrie, Fulton and Urbana sawmills. Recognizing challenging market conditions and inflationary construction cost pressures the Company has decided to defer its decision on the construction of a greenfield sawmill until at least the end of 2019.

On the acquisition front, during 2018, the Company entered into agreements to purchase 100% of Elliott Sawmilling Co. Inc., located in Estill, South Carolina ("Elliott"), and 70% of the VIDA Group ("VIDA"), Sweden's largest privately owned sawmill company, with an annual production capacity of 1.1 billion board feet. Following the anticipated completion of these acquisitions in the first half of 2019, Canfor's lumber production capacity will increase to approximately 7.2 billion board feet, which includes the Company's SYP lumber capacity growing to approximately 2.0 billion board feet as a result of the Elliott acquisition and organic growth in the US South.

In 2018, CPPI completed 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 $100 million. These two projects will yield both a significant improvement in overall mill energy efficiency and a material reduction in total fuel consumption.

As part of its balance sheet management focus, the Company purchased a further $58.9 million of annuities through its defined benefit pension plans in 2018, significantly mitigating its exposure to future fluctuations in related pension obligations. The Company was also active in opportunistically repurchasing approximately 3.4 million common shares under its Normal Course Issuer Bid for $84.8 million. As a result of the strong cash generated by CPPI in 2017 and 2018, CPPI paid a special dividend of $2.25 per common share in 2018, in addition to its quarterly dividend of $0.0625 per common share.

The Company ended the year with cash and cash equivalents of $252.7 million, consolidated net debt of $155.7 million and a consolidated net debt to capitalization ratio of 6.2%.

Further discussion on the more significant developments is provided in the "Overview of 2018" 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, 2018, Canfor employed 6,240 people, of which 1,278 are employed by CPPI.

Significant changes to the Company's business in 2018 include the following:

- On November 9, 2018, the Company announced that it had entered into an agreement to purchase Elliott for a purchase price of US$110 million, including working capital. The phased acquisition will be completed over a period of two years, with the first 49% acquired upon closing, and the remaining 51% acquired one year later.
- On November 15, 2018, the Company announced that it had entered into an agreement to purchase 70% of Sweden's largest privately-owned sawmill company, VIDA, for a purchase price of 3,990 million Swedish Krona, including working capital. The current owners of VIDA will retain a 30% interest and continue to manage the day-to-day operations.
- During late 2018 and into 2019, the Company announced that it would be temporarily curtailing sawmill operations in BC during the fourth quarter of 2018 and into the first quarter of 2019, due to log supply constraints, log costs and market conditions. Combined, these temporary curtailments are anticipated to reduce production by approximately 195 million board feet, of which approximately 100 million board feet related to curtailments in the fourth quarter of 2018.

Lumber

Canfor's lumber operations will have an annual production capacity of approximately 7.2 billion board feet of lumber reflecting Board approved near-term capital investments and the above noted planned acquisitions of Elliott and VIDA. 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. The Company, in partnership with Pacific BioEnergy Corporation, 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; Myrtle Beach, US; Mobile, US; El Dorado, US; Tokyo, Japan; 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 NBSK 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.

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 and Asia. European and Asian customers (excluding Japanese and Korean customers) are serviced mostly through a marketing cooperation agreement with UPM-Kymmene ("UPM"), and long-term sales agents. 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 leading supplier of wood products to the building industry around the world. 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 acquisition of VIDA will expand Canfor's global markets to include Europe, Australia and Africa. The Company is also committed to being a major supplier to the retail segment of the lumber market, which includes serving major home centres.

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;
- 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
- Optimizing 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:

- Optimizing the value from its premium quality pulp and paper products in specialty end use applications;
- Attaining world-class supply chain performance;
- Preserving its low-cost operating position and maintaining a strong financial position;
- Growing its green energy business;
- Developing an enterprise-wide culture of safety, innovation and engagement; and
- Capitalizing on attractive growth and diversification opportunities.

OVERVIEW OF 2018

Markets and Pricing

(i) Solid Wood

North American lumber demand was stable through much of 2018 as the US housing market continued its tepid recovery and demand strengthened in the repair and remodeling sector. The Canadian housing market remained near historical highs in 2018, while offshore lumber demand from China, Japan and other regions remained strong, reflecting steadily increasing demand for the Company's specialty and higher-value products. The combination of weather-related supply constraints early in the year and strong North American and offshore demand resulted in historically-high average US-dollar Western SPF and SYP benchmark lumber prices through the first two quarters of 2018. This was followed by steep declines in benchmark prices through the latter half of 2018, driven by increased supply chain inventory, combined with rising interest rates and increasing housing affordability concerns, (Chart 3). For 2018 as a whole, the North American benchmark Western SPF 2x4 #2&Btr lumber price averaged US$480 per Mfbm[1], up US$79 per Mfbm[1], or 20%, compared to 2017. The Western SPF 2x6 #2&Btr lumber price also increased modestly, up US$24 per Mfbm[1], or 6% from the prior year, with more pronounced increases seen in wider-width Western SPF products. 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]	**2018**	2017	Change
2x4 #2&Btr	**$ 480**	$ 401	$ 79
2x4 #3	**$ 372**	$ 323	$ 49
2x6 #2&Btr	**$ 426**	$ 402	$ 24
2x10 #2&Btr	**$ 446**	$ 386	$ 60

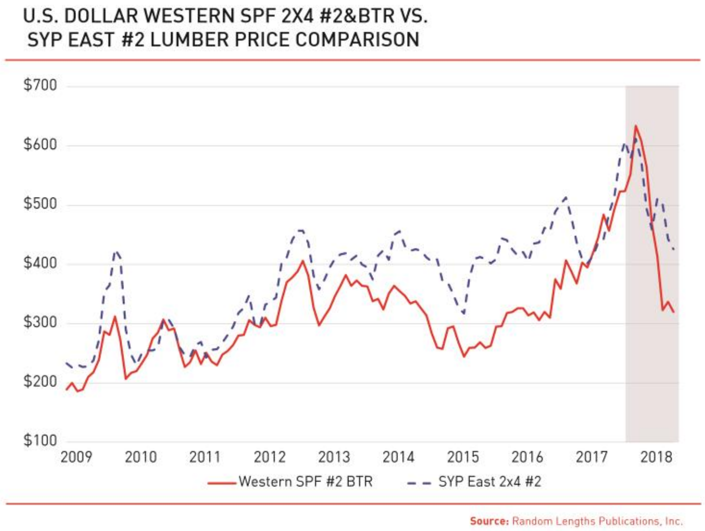
Southern Yellow Pine lumber prices also saw healthy gains in comparison to 2017, despite the significant downward pricing pressure in the second half of 2018. With improved demand more than offsetting a continued increase in capacity from brownfield and greenfield investments, the Random Length SYP East 2x4 #2 price was up US$69 per Mfbm[1], or 15%, compared to 2017, while the SYP East 2x6 #2 price was up US$30 per Mfbm[1], or 8%. Pricing for wider-width SYP lumber products saw similar increases as highlighted in the following table:

(Average SYP East US$ price, per thousand board feet) [1]	**2018**	2017	Change
2x4 #2	**$ 525**	$ 456	$ 69
2x6 #2	**$ 407**	$ 377	$ 30
2x8 #2	**$ 396**	$ 358	$ 38
2x10 #2	**$ 420**	$ 379	$ 41
2x12 #2	**$ 477**	$ 456	$ 21

As previously mentioned, prices for Western SPF and SYP products trended upwards through the first half of 2018, supported by improving market fundamentals. However, as weather-related supply constraints and weakening demand in Western Canada alleviated through the latter half of 2018, higher inventory levels throughout the supply chain resulted in material downward pressure on Western SPF pricing towards the end of the year. As a result, the historical spread between the prices of SYP East 2x4 #2 and Western SPF 2x4 #2&Btr lumber products returned in the second half of 2018 (see Chart 1).

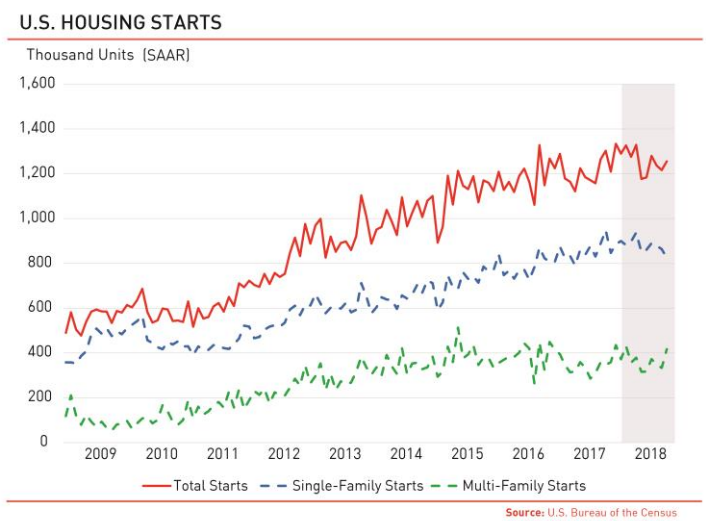
[1] Random Lengths Publications, Inc.

Chart 1



US housing starts averaged 1,264,000 units[2] in 2018 (as at November 2018), an increase of 5% from 2017, and the highest annual average since 2007 (Chart 2), with the increase in multi-family starts, which consume a smaller proportion of lumber, (up 7%), outpacing the increase in single-family starts (up 3%) year-over-year.

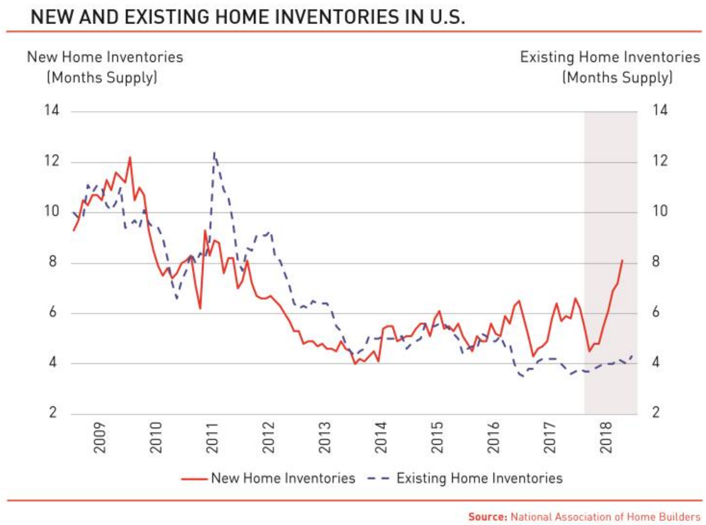
Chart 2



Notwithstanding the sharp increase in 2018, new home inventories remained below historical high levels, while existing home inventories remained steady at the historically low levels seen towards the end of 2017 (see Chart 3). Both metrics, along with new housing starts, highlight the improving US market fundamentals observed through much of 2018.

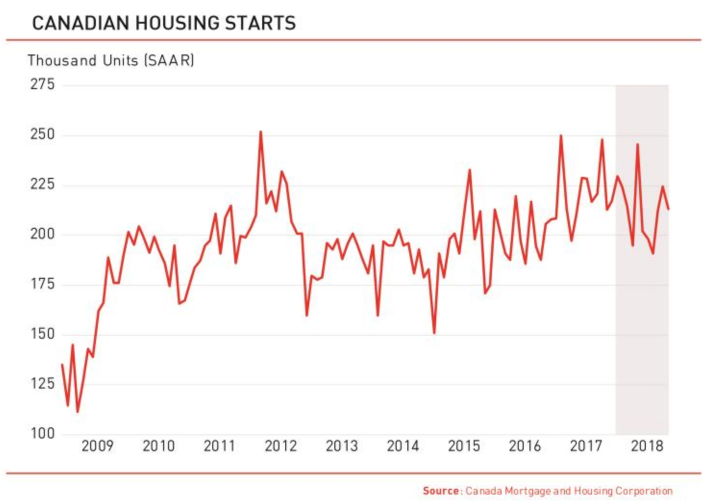
[2] Source: US Bureau of the Census. US housing starts updated to November 2018 due to US government shutdown

Chart 3



Despite continued strength in the Canadian housing market in 2018, housing starts, at 214,000 units[3], were down slightly from 2017 (Chart 4), largely reflecting higher interest rates and increased concern over housing affordability.

Chart 4



Strong underlying demand was evident in the Company's key offshore lumber markets, particularly for its higher-value 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 2018 and the growth of the Company's US South lumber business in recent years, the Company's exposure to the US in 2018 remained well below where it was in 2007, with Western SPF lumber sales volume to North America down approximately 15% principally as a result of the Company's development of new markets for its lumber products, particularly in China.

The Canadian dollar remained relatively unchanged against the US-dollar in 2018, averaging $0.772[4] per US-dollar, in line with 2017.

[3] Canada Mortgage and Housing Corporation ("CMHC")
[4] Bank of Canada (monthly average for the period)

(ii) Pulp

Positive pricing momentum and strong global pulp market conditions experienced in the latter part of 2017 continued well into 2018. NBSK pulp list prices to China for the year averaged US$878[5] per tonne, an historic high and US$166 per tonne, or 23%, higher than the 2017 average price, although prices weakened later in the year in response to slowing demand and oversupply in that region, ending the year at US$725[5] per tonne. North American pricing also saw steady positive momentum through 2018 with list prices rising from US$1,210[5] per tonne in January to US$1,435[5] per tonne in December, with discounts broadly unchanged year-over-year.

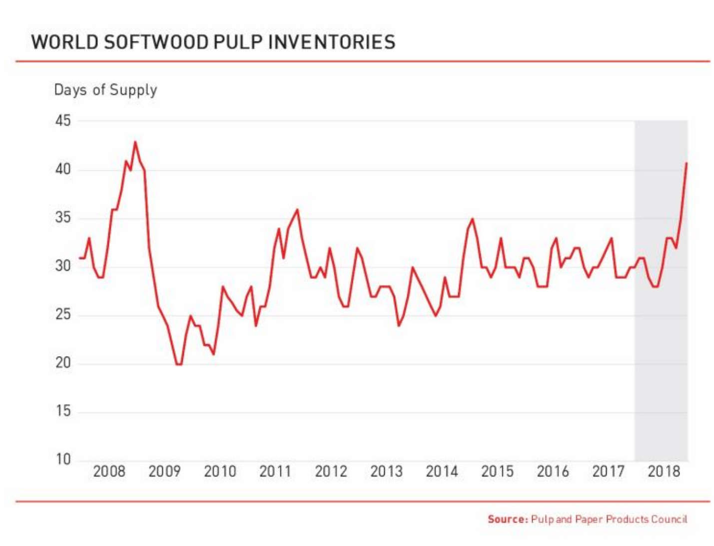
Despite strong demand in the first half of the year, global shipments of bleached softwood kraft pulp in 2018 saw modest decreases compared to 2017, partly due to hardwood pulp substitution that occurred at the elevated softwood pulp prices. Global softwood pulp producer inventories increased in the first quarter of 2018 as a result of major weather-related transportation constraints and minimal maintenance downtime, before declining through the spring maintenance period in the second quarter of 2018. In the latter part of 2018, mostly in response to the slowdown of demand from China, global pulp inventories increased steadily, ending the year at 41 days, well-above the balanced range of 27-30 days.

The following charts show the NBSK pulp list price movements in 2018, before taking account of customer discounts and rebates (Chart 5), and the global pulp inventory levels (Chart 6).

Chart 5

[5] Resource Information Systems, Inc.

Chart 6



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 continued to serve both companies well in 2018, 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. 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.

As a result of the DOC's investigation, preliminary countervailing duties ("CVD") and anti-dumping duties ("ADD"), were imposed on the Company's lumber exports to the United States applicable from April 28, 2017 to August 25, 2017. Final duty determinations were announced on November 2, 2017, resulting in a final ADD rate of 7.28% and CVD rate of 13.24%, effective December 28, 2017. Despite the final duty determinates made by the DOC in 2017, the final liability associated with duties will not be determined until the completion of administrative reviews performed by the DOC.

Cash deposits have been posted reflecting the final published ADD rate of 7.28% and CVD rate of 13.24%, with ADD expense accrued at 2.9% related to the first administrative review period. Cumulative cash duties paid to December 31, 2018 were $284.0 million. In addition, at December 31, 2018, Canfor has recorded a receivable of $76.6 million reflecting the difference between the current combined cash deposit rate of 20.52% and the current combined accrual rate for accounting purposes of 16.14%. Accordingly, Canfor has recorded a net expense of $169.1 million in 2018.

In 2019, Canfor will move into a new period of review, with the estimated ADD rate based on 2019 sales and cost data. Canfor will continue to reassess the ADD accrual estimate at each quarter-end, applying the DOC's methodology to updated sales and cost data as it becomes available.

Additional details on duties is provided in the "Risks and Uncertainties – Softwood Lumber Agreement" section of this document.

External Growth

The Company continued to focus on growth and diversification in 2018. In November, it signed two purchased agreements, both of which advance its business strategy for the lumber business:

- An agreement to purchase 70% of VIDA, Sweden's largest privately-owned sawmill company for a purchase price of 3,990 million Swedish Krona (approximately CAD$580 million), including an estimated $125 million of working capital. VIDA operates nine sawmills in southern Sweden with an annual production capacity of approximately 1.1 billion board feet, in addition to nine value-added facilities which produce premium packaging, modular housing, industrial products and energy. This represents transformational growth and diversification for Canfor, providing a significant source of high quality spruce and pine fibre, access to new markets, and an increased global presence that will enable the Company to meet the growing demand of its strategic customers. The transaction is anticipated to close in the first quarter of 2019.
- An agreement to purchase Elliott, located in Estill, South Carolina, for a purchase price of US$110 million, including working capital. Elliott's access to high-quality fibre and focus on high-value products provides a strong cultural and strategic alignment with Canfor's existing operations in the US South, with an annual production capacity in excess of 210 million board feet. While the purchase price of Elliott will be paid in three equal instalments, ownership will be transferred to Canfor over a period of two years, with 49% acquired at closing (anticipated in the second quarter of 2019) and the remaining 51% acquired one year later.

Together, these acquisitions will increase Canfor's lumber capacity by approximately 1.3 billion board feet and will provide significant geographic and market diversification through access to new markets and increased exposure to higher-margin value-added products. The Company anticipates funding the transactions through a combination of cash on hand and existing credit facilities.

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 support of this objective, the Company has completed a number of 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 support the Company's high-value focus, allowing the Company to optimize the financial margins and value from its strong fibre positions in Western Canada and the US South and, going forward, in Europe. Capital spending in the lumber segment for 2018 totaled $272.3 million, with an increasing proportion of capital deployed in the US South. Capital projects included major upgrades at the Company's sawmill operations in Arkansas, Alabama and Georgia as part of the Company's previously announced organic growth plans, as well as various smaller high-returning capital projects aimed at increasing drying capacity and productivity. Significant capital investment in recent years, combined with the Company's organic growth and planned acquisitions, is anticipated to increase annualized production by more than 50% compared to 2010.

In Western Canada, as mentioned previously, strong lumber prices through the first half of 2018 resulted in a significant increase in market-based stumpage and increased pricing pressure on non-quota (purchased) timber. Various challenges presented by weather and forest fires throughout the year, as well as a continued shift out of the Mountain Pine Beetle ("MPB") log profile and into greener fibre, resulted in material increases in log costs in 2018. The Company's continued focus on high-value and specialty products, combined with greener fibre and targeted capital spending, enabled the Company to produce a record percentage of prime (better than #2&Btr) products in 2018, 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 continue to remain stable, 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 a result of the degradation of pine timber resulting from the MPB infestation. The Company has taken various steps in recent years to secure access to high-quality fibre and ensure the viability and competitiveness of its operations. As a result of current log supply and demand dynamics in Western Canada, the Company remains focused on optimizing the usage of its fibre supply through targeted capital investments, improved fibre utilization, disciplined cost management and maximized residual fibre revenue. The Company also 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 2018 was down 91,000 tonnes, or 7%, when compared to the prior year, largely due to unscheduled production downtime in the last four months of the year. As highlighted earlier, Northwood extended its scheduled maintenance outage on one production line to enable necessary tube replacements to its recovery boiler. A third-party natural gas explosion near Prince George, also in the fall, impacted all of CPPI's NBSK mills and contributed to the lower production year-over-year. Scheduled downtime in 2018 included capital-related downtime in connection with the commissioning of the Taylor BCTMP mill's energy reduction project, and planned maintenance outages at its Northwood and Prince George NBSK pulp mills and Prince George paper mill.

Capital spending in 2018 totalled $120.5 million and included the completion of the Taylor mill energy reduction project and Northwood's installation and commissioning of a new 32 megawatt condensing turbo-generator at a combined cost of approximately $100 million, as well as several smaller high-return discretionary projects. Both projects were delivered on time and on budget. In 2019, CPPI anticipates increased energy efficiency and a material reduction in fuel consumption as a result of these projects.

OVERVIEW OF CONSOLIDATED RESULTS – 2018 COMPARED TO 2017

Selected Financial Information and Statistics

(millions of Canadian dollars, except for per share amounts)		2018		2017
Sales	**$**	**5,044.4**	$	4,563.3
Operating income before amortization	**$**	**879.1**	$	807.3
Operating income	**$**	**608.6**	$	557.4
Net income	**$**	**439.0**	$	393.6
Net income attributable to equity shareholders of the Company	**$**	**354.9**	$	345.4
Net income per share attributable to equity shareholders of the Company, basic and diluted	**$**	**2.78**	$	2.63
ROIC – Consolidated[6]		**18.9%**		20.6%
Average exchange rate (US$/CDN$)[7]	**$**	**0.772**	$	0.770

[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).

Selected Cash Flow Information

(millions of Canadian dollars)		2018		2017
Operating income (loss) by segment:				
Lumber	**$**	**390.5**	$	441.9
Pulp and Paper	**$**	**246.6**	$	154.6
Unallocated and Other	**$**	**(28.5)**	$	(39.1)
Total operating income	**$**	**608.6**	$	557.4
Add: Amortization[8]	**$**	**270.5**	$	249.9
Total operating income before amortization	**$**	**879.1**	$	807.3
Add (deduct):				
Working capital movements	**$**	**(82.8)**	$	(72.1)
Defined benefit plan contributions	**$**	**(28.2)**	$	(28.8)
Income taxes paid, net	**$**	**(222.4)**	$	(43.9)
Adjustment to accrued duties[9]	**$**	**(25.8)**	$	(44.9)
Other operating cash flows, net[10]	**$**	**16.2**	$	(7.5)
Cash from operating activities	**$**	**536.1**	$	610.1
Add (deduct):				
Additions to property, plant and equipment, timber and intangible assets, net	**$**	**(401.4)**	$	(252.1)
Acquisitions, net of disposals	**$**	**-**	$	(23.7)
Share purchases	**$**	**(88.5)**	$	(87.0)
Distributions paid to non-controlling interests	**$**	**(74.5)**	$	(10.0)
Finance expenses paid	**$**	**(23.3)**	$	(21.1)
Repayment of long-term debt, net	**$**	**(0.4)**	$	(44.3)
Acquisitions of non-controlling interests	**$**	**(0.1)**	$	(17.7)
Other, net[10]	**$**	**16.6**	$	5.4
Change in cash / operating loans	**$**	**(35.5)**	$	159.6

[8] Amortization includes amortization of certain capitalized major maintenance costs.
[9] Adjusted to true-up preliminary anti-dumping duty deposits the Company's 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)		2018		2017
Shareholder Net Income, as reported	**$**	**354.9**	$	345.4
Foreign exchange (gain) loss on long-term debt	**$**	**4.3**	$	(7.7)
Loss on derivative financial instruments[11]	**$**	**6.1**	$	3.8
Countervailing and anti-dumping duty deposits[12]	**$**	**123.1**	$	32.8
Mill closure provisions recovery	**$**	**-**	$	(2.4)
Change in substantively enacted tax legislation	**$**	**-**	$	(5.1)
Gain on sale of Anthony EACOM Inc.	**$**	**-**	$	(3.4)
Net impact of above items	**$**	**133.5**	$	18.0
Adjusted shareholder net income	**$**	**488.4**	$	363.4
Shareholder net income per share (EPS), as reported	**$**	**2.78**	$	2.63
Net impact of above items per share	**$**	**1.05**	$	0.14
Adjusted shareholder net income per share	**$**	**3.83**	$	2.77

[11]The Company entered into Swedish Krona forward foreign exchange contracts in November 2018 and recorded a mark-to-market gain of $18.8 million in 2018, which was offset by realized and unrealized net losses of $17.7 million on lumber and energy future sales contracts.
[12]Adjusted for countervailing and anti-dumping duty deposits expensed for accounting purposes.

The Company recorded net income attributable to equity shareholders of $354.9 million, or $2.78 per share, for the year ended December 31, 2018, an increase of $9.5 million, or $0.15 per share, from $345.4 million, or $2.63 per share, reported for the year ended December 31, 2017. After taking account of specific items affecting comparability with prior periods, the Company's 2018 adjusted shareholder net income was $488.4 million, or $3.83 per share, up $125.0 million, or $1.06 per share, compared to similarly adjusted shareholder net income of $363.4 million, or $2.77 per share, for 2017.

Reported operating income for 2018 was $608.6 million, up $51.2 million from operating income of $557.4 million for 2017. These results were driven largely by record-high pulp and paper segment results offset, in part, by lower lumber segment operating earnings. Overall operating results for the lumber segment were down from the previous year, as significantly higher Western SPF and SYP lumber US-dollar prices in the first half of 2018 were more than offset by market-driven increases unit log costs in Western Canada, increased duty expense year-over-year, as well as the impact of production curtailments at our BC operations in the fourth quarter of 2018, and a $36.7 million write-down of inventory reflecting the material decline in lumber prices towards the end of the year. In the pulp and paper segment, operating income largely reflected historically high US-dollar NBSK prices, which more than offset market-related fibre cost increases, the impact of unscheduled production outages and increased chemical, energy and maintenance expenses associated with production downtime throughout 2018.

A more detailed review of the Company's operational performance and results is provided in the "Operating Results by Business Segment – 2018 compared to 2017" section, which follows this overview of consolidated results.

OPERATING RESULTS BY BUSINESS SEGMENT – 2018 COMPARED TO 2017

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 2018 and 2017 are as follows:

(millions of Canadian dollars, unless otherwise noted)		2018		2017
Sales	**$**	**3,670.4**	$	3,365.6
Operating income before amortization	**$**	**581.3**	$	617.4
Operating income, as reported	**$**	**390.5**	$	441.9
Countervailing and anti-dumping duties	**$**	**169.1**	$	44.3
Inventory valuation adjustments	**$**	**36.7**	$	-
Mill closure provisions recovery	**$**	**-**	$	(3.2)
Adjusted operating income	**$**	**596.3**	$	483.0
Capital expenditures	**$**	**272.3**	$	163.6
Average SPF 2x4 #2&Btr lumber price in US$[13]	**$**	**480**	$	401
Average SPF 2x4 #2&Btr lumber price in Cdn$[13]	**$**	**622**	$	521
Average SYP 2x4 #2 lumber price in US$[14]	**$**	**525**	$	456
US housing starts (thousand units SAAR) [15]		**1,264**		1,208
Production – SPF lumber (MMfbm)[16]		**3,551.2**		3,744.2
Production – SYP lumber (MMfbm)[16]		**1,406.6**		1,410.9
Shipments – SPF lumber (MMfbm)[17]		**3,537.9**		3,689.4
Shipments – SYP lumber (MMfbm)[17]		**1,413.4**		1,440.2

[13] Western Spruce/Pine/Fir, per thousand board feet (Source – Random Lengths Publications, Inc.); Average SPF 2x4 #2&Btr lumber price in Cdn$ calculated as average SPF 2x4 #2&Btr lumber price in US$ multiplied by the average exchange rate – Cdn$ per US$1.00 according to Bank of Canada monthly average rate for the period.
[14] Southern Yellow Pine, Eastside, per thousand board feet (Source – Random Lengths Publications, Inc.).
[15] Source – US Census Bureau, seasonally adjusted annual rate ("SAAR"); Updated to November 2018 due to US government shutdown.
[16] Excluding production of trim blocks.
[17] Canfor-produced lumber, including lumber purchased for remanufacture and excluding trim blocks, excludes shipments of wholesale lumber.

Markets

North American lumber demand was solid across all segments of the market through much of 2018 as a whole, with the US housing market continuing its ongoing, slow but gradual recovery and strengthening demand in the repair and remodeling sector. US housing starts averaged 1,264,000 units in 2018 (as at November 2018), an increase of 5% from 2017, and the highest annual average since 2007. Contributing to improved lumber demand was a 3% increase in single-family starts combined with a 7% increase in multi-family starts compared to 2017 (single-family homes consume approximately three times more lumber than multi-family homes). Canadian housing construction activity remained near historical highs during 2018, yet was down slightly from the previous year, at an average of 214,000 units on a seasonally adjusted basis, partially reflecting increased concern over housing affordability given higher interest rates and home prices. Offshore lumber demand remained solid through 2018, particularly for the Company's higher-value lumber products, despite moderately lower shipment volumes in the current year, largely timing-related.

The combination of weather-related supply constraints early in the year and solid overall North American and offshore demand paved the way for historically-high average US-dollar Western SPF and SYP benchmark lumber prices in the first half of 2018. As supply constraints eased, however, prices fell sharply through the latter half of 2018 as higher inventory levels throughout the supply chain were met with slower demand.

The North American benchmark Western SPF 2x4 #2&Btr lumber price was up US$79 per Mfbm, or 20%, compared to 2017, while the Western SPF 2x6 #2&Btr lumber price was up US$24 per Mfbm, or 6%. Southern Yellow Pine lumber prices saw more moderated 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$69 per Mfbm, or 15%, compared to 2017 with similar price increases seen for wider-width SYP lumber products.

Sales

Lumber segment revenues of approximately $3.7 billion for 2018 were up 9% compared to 2017, reflecting significantly higher Western SPF and SYP unit sales realizations, and notably higher residual revenue in Western Canada. Increased lumber unit sales realizations were offset, in part, by modestly lower shipment volumes in the current year, reflecting fewer operating hours and, to a lesser extent, weather-related operational challenges during 2018.

Total lumber shipments were approximately 4.95 billion board feet for the year, down 4% from 5.13 billion board feet shipped in the previous year, largely due to the 4% decline in total lumber production, principally due to the announced curtailments resulting in lower volumes available for sale in the current year.

As highlighted, Western SPF lumber unit sales realizations were up considerably from the prior year as higher average benchmark lumber prices and the benefit of a higher-value sales mix, more than offset the impact of increased countervailing and anti-dumping duty expenses in the current year. A continued focus on high-value products coupled with an increasing proportion of greener fibre and the benefits of recent capital expenditures resulted in the Company producing less low-grade products in 2018. Offshore sales unit realizations were also significantly higher than 2017 reflecting improved US-dollar lumber pricing and a higher-value sales mix.

Total residual fibre revenue for 2018 was substantially higher than the prior year primarily reflecting increased market-based pricing (linked to Canadian dollar NBSK pulp unit sales realizations). Pellet revenue was also higher than the prior year, largely a result of increased shipments in 2018.

Operations

Total lumber production for 2018 was 4.96 billion board feet, down 4% from the prior year, largely reflecting moderately lower production at the Company's BC sawmill operations as a result of production curtailments, and to a lesser extent, severe wildfires in Western Canada and hurricanes in the US South. As previously noted, in light of market and log challenges, the Company curtailed production at the Company's BC lumber operations in the fourth quarter of 2018 by approximately 100 million board feet. Production at the Company's US South sawmill operations was broadly in line with the prior year as hurricane-related downtime and unseasonably high rainfall during the winter months disrupted log deliveries and log profile, both of which reduced productivity in 2018, offsetting the benefits realized from capital upgrades.

Lumber unit manufacturing costs increased significantly compared to the previous year as the benefit of stable log costs in the US South mitigated the effects of materially higher unit log costs in Western Canada. Historically high Western SPF benchmark lumber prices gave rise to increased market-based stumpage, while the aforementioned fire-related challenges, in combination with declining fibre availability in BC, resulted in increased competition for purchased wood, increased log hauling costs and lower log deliveries in Western Canada. Unit cash conversion costs increased moderately year-over-year, principally reflecting the impacts of production curtailments and operational downtime.

Pulp and Paper

Selected Financial Information and Statistics – Pulp and Paper[18]

Summarized results for the Pulp and Paper segment for 2018 and 2017 are as follows:

(millions of Canadian dollars, unless otherwise noted)	2018	2017
Sales	**$ 1,374.0**	$ 1,197.7
Operating income before amortization[19]	**$ 326.2**	$ 229.0
Operating income	**$ 246.6**	$ 154.6
Capital expenditures	**$ 120.5**	$ 83.1
Average NBSK pulp price delivered to China - US$[20]	**$ 878**	$ 712
Average NBSK pulp price delivered to China - Cdn$[20]	**$ 1,137**	$ 925
Production – pulp (000 mt)	**1,117.4**	1,205.0
Production – paper (000 mt)	**134.6**	138.0
Shipments – pulp (000 mt)	**1,131.7**	1,216.4
Shipments – paper (000 mt)	**130.2**	139.0

[18] 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.
[19] Amortization includes amortization of certain capitalized major maintenance costs.
[20] Per tonne, NBSK pulp list price delivered to China (Resource Information Systems, Inc.); Average NBSK pulp price delivered to China – Cdn$ calculated as average NBSK pulp price delivered to China – US$ multiplied by the average exchange rate – Cdn$ per US$1.00 according to Bank of Canada monthly average rate for the period.

Markets

Positive pricing momentum and strong pulp market conditions, particularly in China, experienced in the latter part of 2017 continued well into 2018, before a marked slowdown in China led to a sharp decline in prices to that region through the last three months of 2018. Demand in North America and other regions, including Europe, was less volatile through 2018 with prices increasing steadily through the year.

Global softwood shipments declined 3.2% year-over-year[21], as total pulp deliveries to Western Europe and China dropped in the fourth quarter of 2018 with slowing market demand. The decrease in softwood shipments in 2018 is in contrast to a 4.2% increase in global hardwood shipments year-over-year[21], reflecting hardwood pulp substitution at the historically-high softwood pulp prices, particularly in China.

At the end of 2018, World 20[22] producers of bleached softwood pulp inventories were at 41 days of supply, an increase of eleven days from December 2017, for the most part, reflecting the slowdown of demand from China in the fourth quarter. Market conditions are generally considered balanced when inventories are in the 27-30 days of supply range.

Bleached kraft paper markets continued to show strength throughout 2018 as positive pricing momentum from 2017 continued into the first half of 2018 and remained steady through the balance of the year.

Sales

Pulp shipments in 2018 were 1.13 million tonnes, down 85,000 tonnes, or 7%, from 2017. Lower shipments in 2018 reflected the impact of higher scheduled and unscheduled downtime of production during the year, combined with slowing demand from China later in the year.

NBSK US-dollar pulp list prices to China averaged US$878 per tonne in 2018, a historic-high, and up US$166 per tonne, or 23%, compared to 2017. North American NBSK pulp list prices, averaged US$1,337 per tonne for 2018, up US$232 per tonne, or 21% from 2017, with the discounts largely unchanged year-over-year. Accordingly, NBSK pulp unit sales realizations were up significantly from 2017. Average BCTMP unit sales realizations also showed increases in 2018 from the prior year, reflecting strong BCTMP US-dollar pricing through most of 2018.

[21] As reported PPPC statistics.

[22] 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").

Energy revenue for 2018 was down compared to the prior year primarily as a result of the previously discussed scheduled and unscheduled operational downtime in the second half of the year.

Paper shipments in 2018, at 130,000 tonnes, were down 9,000 tonnes from 2017 reflecting the impact of a maintenance outage in the second quarter (there was no scheduled maintenance outages in 2017), combined with the timing of shipments near year-end. Paper unit sales realizations for 2018 were significantly up from 2017 reflecting an improvement in US-dollar kraft paper prices, as well as proportionately higher prime bleached shipments year-over-year.

Operations

Pulp production in 2018, at 1.12 million tonnes, was down 88,000 tonnes, or 7%, from 2017. In 2018, CPPI completed scheduled maintenance outages at its Northwood and Prince George NBSK pulp mills. The largest contributing factor to the lower production during 2018 related to the aforementioned recovery boiler extended downtime at Northwood. Unscheduled downtime at CPPI's three NBSK pulp mills also resulted from a third-party natural gas pipeline explosion in the fourth quarter. Combined, these scheduled and unscheduled outages impacted NBSK pulp production by approximately 115,000 tonnes in 2018, compared to scheduled and unscheduled downtime of NBSK pulp production in 2017 of 52,000 tonnes. Pulp production in 2018 also reflected a decline in BCTMP production of approximately 25,000 tonnes year-over year, resulting from capital-related downtime taken for the commissioning of the Taylor BCTMP mill energy reduction project and its subsequent ramp up in the second half of the year, along with seven days of curtailed BCTMP production in December due to reduced residual fibre availability.

Pulp unit manufacturing costs were materially higher when compared to 2017, principally reflecting higher fibre costs, lower productivity and higher maintenance, energy and, chemical costs resulting from the aforementioned downtime. The increase in fibre costs compared to 2017 largely reflected higher market-based prices for sawmill residuals (linked to higher Canadian NBSK pulp prices), and, to a lesser extent, an increased proportion of higher-cost whole log chips.

Paper production in 2018 was 135,000 tonnes, down 3,000 tonnes from 2017, principally as a result of scheduled maintenance downtime during the year. Higher paper unit manufacturing costs in 2018 were the result of significant increases in slush pulp costs linked to higher Canadian dollar NBSK market pulp prices.

Unallocated and Other Items

(millions of Canadian dollars)	2018	2017
Operating loss of Panels operations[23]	**$ (1.8)**	$ (2.4)
Corporate costs	**$ (26.7)**	$ (36.7)
Finance expense, net	**$ (26.0)**	$ (30.8)
Foreign exchange gain (loss) on long-term debt and duties receivable	**$ (4.8)**	$ 8.8
Gain (loss) on derivative financial instruments	**$ 1.1**	$ (5.2)
Other income (expense), net	**$ 9.9**	$ (3.8)

[23] 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 $26.7 million in 2018, down $10.0 million from 2017, largely reflecting lower legal fees and BC Lumber Trade Counsel ("BCLTC") dues associated with the expiry of the Softwood Lumber Agreement.

Finance Income and Expense

Net finance expense for 2018 was $26.0 million, down $4.8 million from 2017, largely reflecting increased interest income on term deposits in 2018 and lower pension related costs. See the "Liquidity and Financial Requirements" section for further discussion.

Foreign Exchange Gain (Loss) on Translation of Long-Term Debt and Duties Receivable

In 2018, the Company recognized a foreign exchange loss of $10.9 million on its US-dollar term debt held by Canadian entities, offset in part by a $6.1 million gain on US-denominated duties receivable, both due to the weaker Canadian dollar at the close of 2018 relative to the exchange rate at the close of 2017 (see further discussion on term debt in the "Liquidity and Financial Requirements" section).

Gain (Loss) on Derivative Financial Instruments

At times, the Company uses a variety of derivative financial instruments as partial economic hedges against unfavourable changes in lumber prices, energy costs, interest and foreign exchange rates. In 2018, the Company recorded a net gain of $1.1 million (2017 – net loss of $5.2 million) related to its derivative financial instruments, which largely reflected non-cash mark-to-market gains on outstanding Swedish Krona forward foreign exchange contracts, offset by mark-to-market losses on its lumber future contracts.

Forward foreign exchange contracts were entered into in the fourth quarter of 2018 and subsequent to year-end, to reduce exposure to fluctuations in the Swedish Krona versus the Canadian and US dollar as a result of the Company's commitment to acquire a 70% interest in VIDA in 2019 (see further discussion in the "Liquidity and Financial Requirements" and "Derivative Financial Instruments" section).

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)		**2018**		2017
Lumber futures	**$**	**(17.9)**	$	(4.7)
Energy derivatives	**$**	**0.2**	$	(0.5)
Forward foreign exchange contracts	**$**	**18.8**	$	-
Gain (loss) on derivative financial instruments	**$**	**1.1**	$	(5.2)

Other Income and Expense, net

Other income, net in 2018 of $9.9 million and 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. In 2017, the net expense was 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.

Income Tax Expense

The Company recorded an income tax expense of $149.8 million in 2018, compared to an expense of $132.8 million in 2017, with an overall effective tax rate of approximately 25% (2017 - 25%).

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

(millions of Canadian dollars)		**2018**		2017
Net income before income taxes	**$**	**588.8**	$	526.4
Income tax expense at statutory rate of 27% (26% in 2017)	**$**	**(159.0)**	$	(136.9)
Add (deduct):				
Non-taxable income related to non-controlling interests		**0.2**		0.4
Entities with different income tax rates and other tax adjustments		**8.3**		(1.9)
Permanent difference from capital gains and losses and other non-deductible items		**0.7**		1.8
Change in substantively enacted legislation		**-**		3.8
Income tax expense	**$**	**(149.8)**	$	(132.8)

In 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 record 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.

In addition, a tax expense of $1.9 million in relation to the actuarial gains on the defined benefit plans (December 31, 2017 – expense of $6.1 million, before the tax rate adjustment) was recorded in other comprehensive income (loss) in 2018.

Other Comprehensive Income (Loss)

(millions of Canadian dollars)		**2018**		2017
Defined benefit plan actuarial gains, net of tax	**$**	**5.0**	$	19.1
Foreign exchange translation differences of foreign operations, net of tax		**50.4**		(33.8)
Other comprehensive income (loss), net of tax	**$**	**55.4**	$	(14.7)

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 2018, an after-tax gain of $5.0 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 than anticipated return on plan assets, which was offset in part by the benefit of a higher discount rate used to value the net defined benefit obligation. The non-pension post-employment benefit gain reflected the impact of the higher discount rate and favourable actuarial experience adjustments as a result of the most recent actuarial valuation as at December 31, 2017, which was completed in 2018.

In 2018, the Company purchased $58.9 million of buy-in annuities through its defined benefit pension plans, increasing total annuities purchased to $481.8 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 $3.6 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, 52% 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 12% is partially hedged through the plan's investment in debt securities.

In 2017, an after-tax gain of $19.1 million was recorded to other comprehensive income, primarily reflecting a 50% reduction in Medical Service Plan ("MSP") premiums following a change in legislation in British Columbia. 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 after-tax gain of $50.4 million to other comprehensive income in 2018 related to foreign exchange differences for foreign operations, resulting from the weaker Canadian dollar at the end of 2018 compared to one-year earlier. This compared to an after-tax loss of $33.8 million in 2017 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, 2018 and 2017:

(millions of Canadian dollars, except for ratios)	2018	2017
Cash and cash equivalents	**$ 252.7**	$ 288.2
Operating working capital	**637.3**	448.5
Current portion of deferred reforestation	**(52.9)**	(49.5)
Net working capital	**837.1**	687.2
Property, plant and equipment	**1,607.2**	1,438.1
Timber licenses	**504.1**	518.3
Goodwill and other intangible assets	**268.3**	228.1
Retirement benefit surplus	**4.9**	7.9
Long-term investments and other	**110.4**	83.3
	$ 3,332.0	$ 2,962.9
Long-term debt	**$ 408.0**	$ 385.4
Retirement benefit obligations	**254.7**	272.0
Deferred reforestation obligations (long-term portion)	**63.9**	63.0
Other long-term liabilities	**24.6**	23.7
Deferred income taxes, net	**240.9**	217.8
Non-controlling interests	**283.5**	269.6
Equity attributable to shareholders of Company	**2,056.4**	1,731.4
	$ 3,332.0	$ 2,962.9
Ratio of current assets to current liabilities	**2.6 : 1**	2.3 : 1
Net debt to total capitalization	**6.2%**	4.6%

The ratio of current assets to current liabilities at the end of 2018 was 2.6:1 compared to 2.3:1 at the end of 2017, and principally reflected the Company's higher inventory balance at December 31, 2018 compared to December 31, 2017.

The Company's net debt to capitalization was 6.2% at December 31, 2018 (December 31, 2017 – 4.6%) and largely reflected the special dividend paid in 2018, part of which was distributed to non-controlling shareholders of CPPI..

CHANGES IN FINANCIAL POSITION

At the end of 2018, Canfor had $252.7 million of cash and cash equivalents.

(millions of Canadian dollars)	2018	2017
Cash generated from (used in)		
Operating activities	**$ 536.1**	$ 610.1
Financing activities	**(186.8)**	(207.6)
Investing activities	**(393.4)**	(266.4)
Increase (decrease) in cash and cash equivalents[24]	**$ (44.1)**	$ 136.1

[24] 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 during 2018 are discussed in the following sections.

Operating Activities

Canfor generated cash from operations of $536.1 million for the 2018 year, down $74.0 million from cash generated of $610.1 million in the previous year. The decrease in operating cash flows primarily reflected increased income tax payments as a result of higher cash earnings in 2018, and, to a lesser extent, increased inventories on hand at the end of the current year. Cash duty deposits paid in 2018 were $194.8 million compared to $89.2 million in the prior year.

Financing Activities

Financing activities in 2018 used net cash of $186.8 million compared to cash used of $207.6 million in 2017. The Company had no balance outstanding on its Canadian operating loan facility at the end of 2018 and 2017. The Company made cash distributions of $74.5 million to non-controlling shareholders in 2018, up $64.5 million from 2017; this was principally as a result of a special dividend of $2.25 per common share paid by CPPI on November 13, 2018. In 2017, CPPI made an early repayment of its $50.0 million term debt.

Cash used for financing activities also included share purchases under Canfor's and CPPI's Normal Course Issuer Bids. In 2018, Canfor purchased 3,425,580 common shares for $84.8 million (average price of $24.76 per common share) and paid an additional $3.7 million in relation to shares purchased in the prior year. Under a separate normal course issuer bid, CPPI purchased 500 common shares from non-controlling shareholders at an average of $13.01 per common share, and paid an additional $0.1 million in relation to shares purchased in the prior year.

During 2017, Canfor purchased 4,159,593 common shares for $90.7 million and under a separate normal course issuer bid, CPPI purchased 1,448,109 common shares from non-controlling shareholders for $17.8 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 2018, the Company used net cash for investing activities of $393.4 million, compared to $266.4 million in 2017. Additions to property, plant and equipment totaled $401.4 million, up $149.3 million from 2017. Most of this increase was in the lumber segment, where capital spending totaled $272.3 million and included additional capital deployed in the US South as part of the Company's US$125.0 million organic capital initiative, which will add an additional 350 million board feet of production capacity. Capital projects completed in 2018 included major upgrades at the Company's sawmill operations in Arkansas, Alabama, and Georgia, as well as various smaller, high-returning capital projects aimed at increasing drying capacity and productivity. In the pulp and paper segment, capital expenditures of $120.5 million were associated with several capital projects including the aforementioned Northwood and Taylor energy projects, the ongoing development of CPPI's new ERP software system, which is scheduled to go-live in 2019, as well as various other maintenance of business and other improvement projects.

LIQUIDITY AND FINANCIAL REQUIREMENTS

Operating Loans

At December 31, 2018, on a consolidated basis, the Company had cash of $252.7 million, with no amounts drawn on its operating loans, and an additional $68.5 million reserved for several standby letters of credit. Total available undrawn operating loans at year end were $551.5 million, including undrawn facilities for letters of credit.

Excluding CPPI, the Company's bank operating loans at December 31, 2018 totaled $450.0 million, of which no amounts were drawn, however $57.4 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. On December 14, 2018, the operating loan was further extended to January 2, 2024, and the principal was increased by $100.0 million. 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, 2018, CPPI had an undrawn $110.0 million bank loan facility with $11.1 million reserved for several standby letters of credit under the operating loan facility. On April 6, 2018, the maturity date of CPPI's operating loan facility was extended from January 31, 2020 to April 6, 2022.

Term Debt

On December 14, 2018, the Company increased its Canadian dollar denominated floating interest rate term debt facility to $225.0 million (2017 - $125.0 million) and extended its maturity date from September 28, 2022 to January 2, 2024. The Company also increased its US-dollar denominated floating rate term debt facility to $200.0 million (2017 - $100.0 million) and extended its maturity date from September 28, 2025 to January 2, 2027. As at December 31, 2018, the incremental borrowing capacity available under both the Canadian dollar and US-dollar floating rate term debt was undrawn.

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, 2018.

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

Normal Course Issuer Bid

On March 5, 2018, the Company renewed its normal course issuer bid whereby it can purchase for cancellation up to 6,439,764 common shares or approximately 5% of its issued and outstanding common shares as of March 1, 2018. The renewed normal course issuer bid is set to expire on March 6, 2019. In 2018, Canfor purchased 3,425,580 common shares for $84.8 million (an average of $24.76 per common share). In December 2018, the Company decreased its share purchase activity under its normal course issuer bid following the announcement of the aforementioned planned acquisitions of VIDA and Elliott. In 2017, Canfor purchased 4,159,593 common shares for $90.7 million (an average of $21.81 per common share).

Under a separate normal course issuer bid, in 2018, CPPI purchased 500 common shares from non-controlling shareholders at an average of $13.01 per common share. As at December 31, 2017 and December 31, 2018 Canfor's ownership interest in CPPI was 54.8%.

2019 Projected Capital Spending and Debt Repayments

During the first half of 2019, the Company anticipates investing approximately $630.0 million in relation to the aforementioned VIDA and Elliott acquisitions. In addition, based on its current outlook, assuming no further deterioration in market conditions during the year, the Company anticipates it will invest approximately $300.0 million in 2019 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 ongoing organic growth in its US South lumber business. There are no scheduled long-term debt payments in 2019. Canfor has sufficient liquidity in its cash reserves and operating loans to finance its planned investments and support its lumber and pulp operations during 2019.

Derivative Financial Instruments

As at December 31, 2018, the Company had the following significant derivative financial instruments outstanding:

a. Futures contracts for the sale of lumber with a total notional amount of 42.7 MMfbm at December 31, 2018. There were unrealized losses of $0.2 million at December 31, 2018 on these contracts.

	As at December 31, 2018	
	Notional Amount	**Average Rate**
Lumber Futures	(MMfbm)	(US dollars per Mfbm)
Future sales contracts		
0-12 months	**42.7**	**$343.14**

b. Canfor is subject to Swedish Krona ("SEK") foreign exchange risk associated with the commitment to purchase VIDA in 2019. In order to reduce its exposure to fluctuations in the Swedish Krona versus the Canadian and US dollar, Canfor entered into the following forward foreign exchange contracts in the fourth quarter of 2018:

		As at December 31, 2018	
	Notional Currency	**Notional Amount**	**Exchange Rates**
Swedish Krona Forward Contracts		(millions of dollars)	(rate of SEK to notional currency)
January 15 - February 28, 2019	USD	**$100.0**	**9.07**
January 15 - February 28, 2019	CAD	**$292.6**	**6.84**

Subsequent to year end, the Company continued to reduce its exposure to fluctuations in the Swedish Krona by entering into additional US and Canadian dollar forward foreign exchange contracts. Canadian dollar contracts were entered into with a total notional amount of $125.0 million, exchange rates ranging from 6.86 to 6.90 and settlement dates of February 28, 2019. US dollar contracts were also entered into with a total notional amount of US$25.0 million, an exchange rate of 9.06 and a settlement date of February 28, 2019.

At times, Canfor enters into interest swaps, commodity swaps, and oil collars to reduce its exposure to interest rate risk, energy price risk and diesel purchases, respectively. At December 31, 2018, none of these types of contracts were outstanding.

Commitments and Subsequent Events

The following table summarizes Canfor's financial contractual obligations excluding interest at December 31, 2018 for each of the next five years and thereafter:

(millions of Canadian dollars)	**2019**	**2020**	**2021**	**2022**	**2023**	**Thereafter**	**Total**
Long-term debt obligations	$ 0.4	$ 4.8	$ -	$ 0.7	$ -	$ 402.5	$ 408.4
Operating leases	14.7	11.0	8.6	6.3	5.0	6.5	52.1
	$ 15.1	$ 15.8	$ 8.6	$ 7.0	$ 5.0	$ 409.0	$ 460.5

Interest payments include interest of 4.4% on the Company's US$100.0 million fixed-rate 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.

Operating lease commitments will reflect the new leasing standard, IFRS 16, *Leases*, which becomes effective on January 1, 2019 (see further discussion under the "Future Changes in Accounting Policies" section).

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

- Contractual commitments totaling $137.9 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 $116.8 million has been recorded at December 31, 2018. 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, 2018 was $249.8 million. As at December 31, 2018, Canfor estimates that total contribution payments of $19.0 million will be made to its defined benefit plans in 2019.

- 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, 2018 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. In August of 2018, the Jim Pattison Group's ownership interest of Canfor increased above 50%, ending the year at 50.9%. During 2018, subsidiaries owned by the Jim Pattison Group provided lease, insurance and other services to Canfor totalling $5.1 million with no amounts outstanding at December 31, 2018.

During 2018, CPPI sold paper to subsidiaries owned by the Jim Pattison Group totalling $3.0 million. No amounts related to these sales were outstanding as at December 31, 2018.

Additional details on related party transactions are contained in Note 23 to Canfor's 2018 consolidated financial statements.

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.

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 biochemical. In April 2018, the CPPI received the first instalment of funding in the amount of $1.9 million.

During 2018, CPPI, together with its joint venture partner, Licella, has actively continued to advance work associated with the feasibility study and risk reduction process for industrializing this biofuel and biochemical technology.

SELECTED QUARTERLY FINANCIAL INFORMATION

	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017
Sales and income (millions of Canadian dollars)								
Sales	**$ 1,028.1**	**$ 1,323.3**	**$ 1,459.5**	**$ 1,233.5**	$ 1,156.0	$ 1,142.5	$ 1,159.6	$ 1,105.2
Operating income (loss)	**$ (79.1)**	**$ 201.8**	**$ 282.1**	**$ 203.8**	$ 214.2	$ 105.4	$ 131.0	$ 106.8
Net income (loss)	**$ (46.0)**	**$ 144.9**	**$ 198.6**	**$ 141.5**	$ 152.6	$ 72.6	$ 90.9	$ 77.5
Shareholder net income (loss)	**$ (52.4)**	**$ 125.3**	**$ 169.8**	**$ 112.2**	$ 131.8	$ 66.2	$ 81.3	$ 66.1
Per common share (Canadian dollars)								
Shareholder net income (loss) – basic and diluted	**$ (0.42)**	**$ 0.98**	**$ 1.32**	**$ 0.87**	$ 1.02	$ 0.51	$ 0.61	$ 0.50
Book value[25]	**$ 16.42**	**$ 16.66**	**$ 15.95**	**$ 14.52**	$ 13.46	$ 12.32	$ 12.14	$ 11.81
Common Share Repurchases								
Share volume repurchased (000 shares)	**1,123**	**2,283**	**-**	**20**	633	3,526	-	-
Shares Repurchased (millions of Canadian dollars)	**$ 20.6**	**$ 63.7**	**$ -**	**$ 0.5**	$ 15.7	$ 75.0	$ -	$ -
Statistics								
Lumber shipments (MMfbm)	**1,114**	**1,291**	**1,351**	**1,196**	1,205	1,334	1,333	1,237
Pulp shipments (000 mt)	**231**	**262**	**329**	**310**	300	303	276	337
Average exchange rate – US$/Cdn$	**$ 0.758**	**$ 0.765**	**$ 0.774**	**$ 0.791**	$ 0.786	$ 0.798	$ 0.744	$ 0.756
Average Western SPF 2x4 #2&Btr lumber price (US$)	**$ 327**	**$ 482**	**$ 598**	**$ 513**	$ 462	$ 406	$ 388	$ 348
Average SYP (East) 2x4 #2 lumber price (US$)	**$ 457**	**$ 488**	**$ 589**	**$ 566**	$ 455	$ 408	$ 476	$ 482
Average NBSK pulp list price delivered to China (US$)	**$ 805**	**$ 887**	**$ 910**	**$ 910**	$ 863	$ 670	$ 670	$ 645

[25] 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, including hurricanes, flooding, and forest fires, 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 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017
Operating income (loss) by segment:								
Lumber	**$ (87.7)**	**$ 148.9**	**$ 203.4**	**$ 125.9**	$ 154.9	$ 92.9	$ 110.4	$ 83.7
Pulp and Paper	**$ 15.6**	**$ 60.5**	**$ 85.4**	**$ 85.1**	$ 66.8	$ 21.1	$ 31.5	$ 35.2
Unallocated and Other[26]	**$ (7.0)**	**$ (7.6)**	**$ (6.7)**	**$ (7.2)**	$ (7.5)	$ (8.6)	$ (10.9)	$ (12.1)
Total operating income (loss)	**$ (79.1)**	**$ 201.8**	**$ 282.1**	**$ 203.8**	$ 214.2	$ 105.4	$ 131.0	$ 106.8
Add: Amortization[27]	**$ 70.0**	**$ 68.1**	**$ 67.6**	**$ 64.8**	$ 64.0	$ 61.5	$ 62.1	$ 62.3
Total operating income (loss) before amortization	**$ (9.1)**	**$ 269.9**	**$ 349.7**	**$ 268.6**	$ 278.2	$ 166.9	$ 193.1	$ 169.1
Add (deduct):								
Working capital movements	**$ (53.7)**	**$ 61.1**	**$ 61.9**	**$ (152.1)**	$ (63.9)	$ 4.7	$ 92.3	$ (105.2)
Defined benefit pension plan contributions	**$ (7.0)**	**$ (6.6)**	**$ (7.3)**	**$ (7.3)**	$ (10.4)	$ (5.8)	$ (6.6)	$ (6.0)
Income taxes received (paid), net	**$ (68.4)**	**$ (82.9)**	**$ (24.3)**	**$ (46.8)**	$ (4.2)	$ (21.6)	$ (19.3)	$ 1.2
Adjustment to accrued duties[28]	**$ 10.1**	**$ (12.9)**	**$ (10.1)**	**$ (12.9)**	$ (44.9)	$ -	$ -	$ -
Gain on sale of Anthony EACOM Inc. [29]	**$ -**	**$ -**	**$ -**	**$ -**	$ -	$ -	$ -	$ (4.0)
Other operating cash flows, net[31]	**$ 21.0**	**$ (27.5)**	**$ -**	**$ 22.7**	$ 1.8	$ (17.1)	$ (5.9)	$ 17.7
Cash from (used in) operating activities	**$ (107.1)**	**$ 201.1**	**$ 369.9**	**$ 72.2**	$ 156.6	$ 127.1	$ 253.6	$ 72.8
Add (deduct):								
Capital additions, net	**$ (140.2)**	**$ (117.2)**	**$ (87.6)**	**$ (56.4)**	$ (94.0)	$ (57.5)	$ (61.7)	$ (38.9)
Finance expenses paid	**$ (8.2)**	**$ (4.1)**	**$ (7.3)**	**$ (3.7)**	$ (6.7)	$ (4.8)	$ (6.4)	$ (3.2)
Distributions paid to non-controlling interests	**$ (68.6)**	**$ (2.1)**	**$ (2.0)**	**$ (1.8)**	$ (1.8)	$ (2.2)	$ (2.2)	$ (3.8)
Repayment of long-term debt	**$ (0.1)**	**$ (0.1)**	**$ (0.1)**	**$ (0.1)**	$ (50.1)	$ (0.1)	$ (0.1)	$ -
Share purchases	**$ (24.3)**	**$ (60.0)**	**$ -**	**$ (4.2)**	$ (12.0)	$ (75.0)	$ -	$ -
Proceeds received from sale of Anthony EACOM Inc. [29]	**$ -**	**$ -**	**$ -**	**$ -**	$ 13.1	$ 1.4	$ 1.2	$ 5.4
Acquisitions	**$ -**	**$ -**	**$ -**	**$ -**	$ (3.6)	$ -	$ (14.4)	$ (41.8)
Proceeds from long-term debt, net	**$ -**	**$ -**	**$ -**	**$ -**	$ 4.3	$ -	$ -	$ 1.7
Proceeds received from sale of Lakeland Winton[30]	**$ -**	**$ -**	**$ -**	**$ -**	$ -	$ -	$ 15.0	$ -
Foreign exchange gain (loss) on cash and cash equivalents	**$ 7.1**	**$ (1.8)**	**$ 1.9**	**$ 1.4**	$ 0.1	$ (2.5)	$ (2.0)	$ (0.1)
Other, net[31]	**$ 2.8**	**$ 2.7**	**$ 1.9**	**$ 0.5**	$ 3.5	$ (10.5)	$ (4.3)	$ 3.5
Change in cash / operating loans	**$ (338.6)**	**$ 18.5**	**$ 276.7**	**$ 7.9**	$ 9.4	$ (24.1)	$ 178.7	$ (4.4)

[26] Decrease in Unallocated and Other in 2018 largely attributable to lower legal costs and BCTLC dues related to the expiry of the Softwood Lumber Agreement.
[27] Amortization includes amortization of certain capitalized major maintenance costs.
[28] Adjusted to true-up anti-dumping duty deposits to the Company's current accrual rates.
[29] 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.
[30] 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.
[31] 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)	2018	2017	2016
Sales	**$ 5,044.4**	$ 4,563.3	$ 4,234.9
Net income	**$ 439.0**	$ 393.6	$ 203.9
Shareholder net income	**$ 354.9**	$ 345.4	$ 150.9
Total assets	**$ 3,845.1**	$ 3,488.3	$ 3,277.1
Term debt	**$ 408.4**	$ 385.7	$ 448.0
Shareholder net income per share, basic and diluted	**$ 2.78**	$ 2.63	$ 1.14

FOURTH QUARTER RESULTS

Overview of Operating Results

The Company reported a shareholder net loss for the fourth quarter of 2018 of $52.4 million, or $0.42 per share, compared to shareholder net income of $125.3 million, or $0.98 per share, for the third quarter of 2018 and shareholder net income of $131.8 million, or $1.02 per share, for the fourth quarter of 2017.

For the fourth quarter of 2018, the Company reported an operating loss of $79.1 million, down $280.9 million from reported operating income of $201.8 million for the third quarter of 2018, and down $293.3 million from reported operating income of $214.2 million for the fourth quarter of 2017.

Reported results for the fourth quarter of 2018 include a net duty expense of $39.9 million, at a current cumulative effective countervailing duty ("CVD") and anti-dumping duty ("ADD") rate of 16.14%, compared to $42.6 million reported in the third quarter of 2018 and a net duty recovery of $23.4 million reported in the fourth quarter of 2017. Reported results in the fourth quarter of 2018 also include a $36.7 million inventory valuation adjustment, representing the excess of the carrying cost of year-end lumber and log inventory over net realizable value. After adjusting for the aforementioned items, the Company's operating loss was $2.5 million for the fourth quarter of 2018, down $246.9 million from similarly adjusted operating income in the third quarter of 2018, and down $193.3 million from similarly adjusted operating income in the fourth quarter of 2017.

An overview of the results by business segment for the fourth quarter of 2018 compared to the third quarter of 2018 and fourth quarter of 2017 follows.

Lumber

Selected Financial Information and Statistics – Lumber

Summarized results for the Lumber segment for the fourth quarter of 2018, third quarter of 2018 and fourth quarter of 2017 were as follows:

(millions of Canadian dollars, unless otherwise noted)	**Q4 2018**	Q3 2018	Q4 2017
Sales	**$ 738.4**	$ 994.9	$ 833.1
Operating income (loss) before amortization	**$ (38.2)**	$ 196.7	$ 200.1
Operating income (loss)	**$ (87.7)**	$ 148.9	$ 154.9
Countervailing and anti-dumping duty deposits, net of recovery[32]	**$ 39.9**	$ 42.6	$ (23.4)
Inventory valuation adjustment[33]	**$ 36.7**	$ -	$ -
Adjusted operating income (loss)	**$ (11.1)**	$ 191.5	$ 131.5
Average SPF 2x4 #2 & Btr lumber price in US$[34]	**$ 327**	$ 482	$ 462
Average SPF 2x4 #2 & Btr lumber price in Cdn$[34]	**$ 432**	$ 630	$ 588
Average SYP 2x4 #2 lumber price in US$[35]	**$ 457**	$ 488	$ 455
US housing starts (thousand units SAAR)[36]	**1,237**	1,234	1,259
Production – SPF lumber (MMfbm)[37]	**793.0**	921.8	903.4
Production – SYP lumber (MMfbm)[37]	**334.4**	353.6	335.4
Shipments – SPF lumber (MMfbm)[38]	**782.8**	933.8	911.0
Shipments – SYP lumber (MMfbm)[38]	**330.9**	357.5	327.5

[32] Adjusted for countervailing and anti-dumping duty deposits expensed for accounting purposes in the fourth and third quarter of 2018 and a recovery in the fourth quarter of 2017 to true-up the preliminary anti-dumping duties to the estimated countervailing and anti-dumping duty rate based on the Company's sales and cost data.

[33] Adjusted for write-down of inventory representing the excess of the carrying cost of year-end lumber and log inventory over its net realizable value.

[34] Western Spruce/Pine/Fir, per thousand board feet (Source – Random Lengths Publications, Inc.); Average SPF 2x4 #2&Btr lumber price in Cdn$ calculated as average SPF 2x4 #2&Btr lumber price in US$ multiplied by the average exchange rate – Cdn$ per US$1.00 according to Bank of Canada monthly average rate for the period.

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

[36] Source – US Census Bureau, seasonally adjusted annual rate; Updated to November 2018 due to US government shutdown.

[37] Excluding production of trim blocks.

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

Markets

North American lumber consumption was down slightly in the fourth quarter of 2018, in part reflecting waning demand as the quarter progressed. US housing starts, on a seasonally adjusted basis, averaged 1,237,000 units (as at November 2018), in line with the previous quarter but down slightly from the fourth quarter of 2017. Single-family starts were down 4%, while multi-family starts were up 8% compared to the third quarter of 2018. Demand in the repair and remodeling sector continued to be very strong through the fourth quarter of 2018. In Canada, housing starts remained near historical highs, averaging 217,000 units on a seasonally adjusted basis, up 10% from the previous quarter and down 5% from the same period in 2017. Offshore lumber consumption remained solid, with shipments to China increasing in the quarter.

Sales

Sales for the lumber segment for the fourth quarter of 2018 were $738.4 million, compared to $994.9 million for the previous quarter and $833.1 million for the fourth quarter of 2017. The 26% decrease in sales revenue compared to the prior quarter principally reflected substantial declines in Western SPF and SYP unit sales realizations combined with lower shipment volumes. The 11% decrease in sales revenue compared to the fourth quarter of 2017 was primarily due to significantly lower Western SPF benchmark lumber prices in the fourth quarter of 2018 and, to a lesser extent, reduced shipments, offset in part by higher residual revenue in Western Canada.

Total lumber shipments, at 1.11 billion board feet, were 14% lower than the previous quarter, largely due to announced curtailments resulting in lower volumes available for sale, with a higher proportion of volumes sold offshore.

The slowing North American demand coupled with an excess of supply placed significant downward pressure on prices through the fourth quarter; the average benchmark North American Random Lengths Western SPF 2x4 #2&Btr price was down US$155 per Mfbm, or 32%, from the previous quarter, at US$327 per Mfbm, with similar decreases also seen across most Western SPF wider-width dimensions. As a result, Western SPF lumber unit sales realizations were also significantly down quarter-over-quarter, as the sharp declines in benchmark Western SPF lumber prices more than offset the 1 cent, or 1%, weaker Canadian dollar and a higher-value sales mix. SYP lumber unit sales realizations were also materially lower than the prior quarter reflecting increased available supply in the US South region, a 6% decrease in the SYP East 2x4 #2 price, and more pronounced declines in wider SYP dimensions.

Compared to the fourth quarter of 2017, Western SPF lumber unit sales realizations were down significantly as lower US-dollar benchmark lumber prices more than offset the benefit of a 4% weaker Canadian dollar in the current quarter. The average North American Random Lengths Western SPF 2x4 #2&Btr price was down US$135 per Mfbm, or 29%, with similar impacts to wider-width dimensions. SYP lumber unit sales realizations were moderately lower primarily reflecting SYP benchmark lumber price declines. The average North American Random Lengths SYP East 2x4 #2 price was in line with the comparative period, while wider width dimension products saw moderate declines.

Total residual fibre revenue in the current quarter was moderately lower than the previous quarter as higher market-based pricing for sawmill residual chips was offset by lower production-related volumes. Residual revenue was moderately higher than the fourth quarter of 2017, largely reflecting increased market-based chip pricing, tied to higher Canadian NBSK pulp sales realizations. Log sales were notably higher than the third quarter of 2018, primarily reflecting moderately higher sales realizations and increased log sales volume, and were broadly in line with the fourth quarter of 2017.

Operations

Total lumber production, at 1.13 billion board feet, was down 12% from the previous quarter reflecting the impacts of the aforementioned temporary production curtailments at the Company's Western Canada operations, reduced shifts and, to a lesser extent, additional statutory holidays in the current quarter. In addition, inclement weather in the US South impacted log deliveries and log profile, both of which contributed to lower productivity in the current quarter. Total lumber production was down 9% from the fourth quarter of 2017, for the most part reflecting the impacts of the aforementioned reduced production in Western Canada.

Lumber unit manufacturing costs in the fourth quarter of 2018 were moderately higher than the previous quarter, largely reflecting the effects of timing of market-based stumpage increases, log supply and profile shortages, combined with reduced sawmill productivity and production, and, to a lesser extent, seasonally higher energy costs. Log costs in the US South remained in line with the previous quarter. Compared to the fourth quarter of 2017, unit manufacturing costs were significantly higher primarily as a result of market-based stumpage increases in Western Canada combined with substantial increases in purchased wood costs driven by log supply constraints quarter-over-quarter.

Pulp and Paper

Selected Financial Information and Statistics – Pulp and Paper[39]

Summarized results for the Pulp and Paper segment for the fourth quarter of 2018, third quarter of 2018 and fourth quarter of 2017 were as follows:

(millions of Canadian dollars, unless otherwise noted)		Q4 2018		Q3 2018		Q4 2017
Sales	$	**289.7**	$	328.4	$	322.9
Operating income before amortization[40]	$	**36.1**	$	80.7	$	85.6
Operating income	$	**15.6**	$	60.5	$	66.8
Average NBSK pulp price delivered to China – US$[41]	$	**805**	$	887	$	863
Average NBSK pulp price delivered to China – Cdn$	$	**1,062**	$	1,160	$	1,098
Production – pulp (000 mt)		**223.9**		285.3		307.6
Production – paper (000 mt)		**35.6**		34.1		35.0
Shipments – pulp (000 mt)		**230.7**		262.4		299.7
Shipments – paper (000 mt)		**32.0**		33.6		35.8

[39] 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.
[40] Amortization includes amortization of certain capitalized major maintenance costs.
[41] Per tonne, NBSK pulp price delivered to China (RISI).

Markets

Reflecting weaker demand from China, global softwood pulp market demand was down in the fourth quarter of 2018, with global softwood pulp producer inventory levels remaining above normal through the quarter. US-dollar NBSK pulp list prices to China averaged US$805 per tonne, down 9% from the prior quarter, with prices ending the year at US$725 per tonne. Global softwood pulp producer inventory levels were well above the balanced range at 41 days of supply in December 2018[42], an increase of 8 days from August 2018, for the most part reflecting a sharp decline in demand from China (generally considered balanced when inventories are in the 27-30 days of supply range).

Global shipments of bleached softwood pulp for 2018 declined 3.2%[43] when compared to 2017, largely reflecting the decline in demand and timing of shipments in the latter part of the year.

Global kraft paper markets were steady through the fourth quarter of 2018 following positive pricing and demand momentum in the North American and Asian markets through the first three quarters of 2018.

Sales

Pulp shipments for the fourth quarter of 2018 totalled 230,700 tonnes, down 31,700 tonnes, or 12%, from the previous quarter and down 69,000 tonnes, or 23%, from the fourth quarter of 2017. The decline in pulp shipments versus the previous quarter reflected the impact of the aforementioned downtime, partly offset by a drawdown of pulp inventories through the period. The anticipated benefit of a slipped vessel shipment from the previous quarter into the fourth quarter was offset by a delayed vessel shipment over the year end. Compared to the fourth quarter of 2017, the decrease in pulp shipments was mostly attributable to operational downtime and weaker market demand from China in the latter part of the current quarter.

[42] 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.
[43] As reported by PPPC statistics.

The average US-dollar NBSK pulp list price to China of US$805 per tonne, as published by RISI, was down US$82 per tonne, or 9%, from the third quarter of 2018, and down US$58 per tonne, or 7%, from the fourth quarter of 2017. NBSK pulp unit sales realizations were broadly in line with the prior quarter as the lower US-dollar NBSK pulp list pricing to China was largely offset by higher US-dollar NBSK pulp list pricing to North America through the quarter, up US$51 per tonne (before the effect of discounts), or 4%, as published by RISI, proportionately higher shipments to North America and a 1 cent, or 1%, weaker Canadian dollar. BCTMP US-dollar pricing came under modest downward pressure during the current quarter; however CPPI's sales realizations remained steady quarter-over-quarter reflecting the timing of shipments (versus orders) and a weaker Canadian dollar.

NBSK pulp unit sales realizations were up significantly from the fourth quarter of 2017, principally reflecting the timing of shipments (versus orders) in the fourth quarter of 2017 and a 3 cent, or 4%, weaker Canadian dollar in the current quarter.

Energy revenues were broadly in line with the third quarter of 2018, principally reflecting seasonally higher energy prices offset by reduced power generation at Northwood due to the previously mentioned production downtime in the current quarter. Compared to the fourth quarter of 2017, energy revenues were down substantially, primarily due to reduced power generation largely correlated with the decline in pulp production quarter-over-quarter.

Paper shipments in the fourth quarter of 2018 were 32,000 tonnes, down 1,600 tonnes, or 5%, from the previous quarter and down 3,800 tonnes, or 11% from the fourth quarter of 2017, principally reflecting the timing of shipments quarter-over-quarter. Paper unit sales realizations in the fourth quarter of 2018 were broadly in line with the previous quarter, with lower market-driven US-dollar pricing offsetting a 1% weaker Canadian dollar. Compared to the same quarter of 2017, paper unit sales realizations were up significantly as favourable US-dollar pricing, combined with the weaker Canadian dollar, more than offset higher freight costs.

<u>Operations</u>

Pulp production was down 61,400 tonnes, or 22%, from the previous quarter. This lower production primarily reflected the continuation of the scheduled maintenance outage at Northwood from the previous quarter, the aforementioned recovery boiler extended downtime at Northwood, unscheduled downtime taken as a result of a third-party natural gas pipeline explosion, which impacted CPPI's three NBSK pulp mills, and, to a lesser extent, several other operational challenges during the current quarter. Combined, the scheduled and unscheduled outages impacted NBSK pulp production by approximately 90,000 tonnes. In addition, in late December, CPPI curtailed production at its Taylor BCTMP mill for seven days in light of reduced residual fibre availability resulting from various sawmill curtailments in the region, which impacted BCTMP production by approximately 5,000 tonnes. In the third quarter of 2018, a scheduled maintenance outage at Northwood and ramp up at Taylor following the commissioning of the energy reduction project, reduced pulp production by approximately 30,000 tonnes.

Compared to the fourth quarter of 2017, pulp production was down 83,700 tonnes, or 27%, primarily due to the above noted scheduled and unscheduled outages in the fourth quarter of 2018.

At the end of December, CPPI experienced kiln-related operational disruptions at two of its NBSK pulp mills. While these challenges have now been resolved, the related production loss was approximately 20,000 tonnes early in the first quarter of 2019.

NBSK pulp unit manufacturing costs were up significantly from the previous quarter, in large measure due to reduced productivity in the current quarter as well as higher related maintenance, energy and chemical costs associated with the unscheduled outages. Fibre costs were broadly in line with the third quarter of 2018.

Compared to the fourth quarter of 2017, pulp unit manufacturing costs saw a significant increase, principally due to higher fibre costs, combined with decreased productivity as well as increased maintenance spend and higher energy and chemical costs as a result of the aforementioned downtime. The increased fibre costs in the current quarter, when compared to the same period in the prior year, largely reflected significantly higher market-related prices for sawmill residual and whole log chips.

Paper production for the fourth quarter of 2018 was 35,600 tonnes, up 1,500 tonnes, or 4%, from the prior quarter, and broadly in line with production from the fourth quarter of 2017, principally reflecting a solid operating performance in the current quarter despite unscheduled downtime related to a third-party natural gas explosion near Prince George during the current quarter. Paper unit manufacturing costs were broadly in-line with the third quarter of 2018. Compared to the fourth quarter of 2017, paper unit manufacturing costs showed a significant increase largely due to higher slush pulp costs associated with the increased NBSK pulp sales realizations in the current quarter.

Unallocated and Other Items

(millions of Canadian dollars)		Q4 2018		Q3 2018		Q4 2017
Operating loss of Panels operations[44]	$	**(0.5)**	$	(0.4)	$	(0.8)
Corporate costs	$	**(6.5)**	$	(7.2)	$	(6.7)
Finance expense, net	$	**(7.6)**	$	(5.5)	$	(6.9)
Foreign exchange gain (loss) on long-term debt and duties receivable	$	**(2.3)**	$	0.9	$	(0.7)
Gain (loss) on derivative financial instruments	$	**18.3**	$	(1.6)	$	(6.5)
Other income (expense), net	$	**5.4**	$	(4.1)	$	1.5

[44] 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 $6.5 million for the fourth quarter of 2018, down slightly from both comparative periods.

Net finance expense at $7.6 million was up $2.1 million from the previous quarter and up $0.7 million from the fourth quarter of 2017 reflecting higher fees associated with the extension of the Company's credit facilities and, in part, decreased interest income on term deposits in the current quarter. In the fourth quarter of 2018, the Company recognized a foreign exchange loss on its US-dollar term debt held by Canadian entities, offset in part by a gain on US-denominated duties receivable, both 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 to reduce its exposure against unfavourable changes in energy costs, lumber prices, interest rates and foreign exchange rates. During the current quarter, the Company entered into forward foreign exchange contracts to reduce its exposure to fluctuations in the Swedish Krona versus the Canadian and US dollar as a result of the Company's commitment to acquire a 70% interest in VIDA in 2019. In the fourth quarter of 2018, the Company recorded a net gain of $18.3 million related to its derivative instruments, primarily reflecting a mark-to-market gain on its outstanding Swedish Krona forward foreign exchange contracts.

Other income, net of $5.4 million in the fourth quarter of 2018 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 when compared to the end of the third quarter of 2018.

Other Comprehensive Income (Loss)

(millions of Canadian dollars)		Q4 2018		Q3 2018		Q4 2017
Defined benefit actuarial gain (loss), net of tax	$	**(9.1)**	$	3.0	$	29.7
Foreign exchange translation differences for foreign operations, net of tax		**33.6**		(10.8)		2.6
Other comprehensive income (loss), net of tax	$	**24.5**	$	(7.8)	$	32.3

In the fourth quarter of 2018, the Company recorded an after-tax loss of $9.1 million in relation to changes in the valuation of the Company's employee future benefit plans, down $12.1 million from the third quarter of 2018, primarily as a result of lower than anticipated returns on plan assets.

In comparison to the fourth quarter of 2017, the after-tax gain decreased by $38.8 million, largely reflecting the benefit of a 50% reduction in Medical Service Plan ("MSP") premiums realized in the fourth quarter of 2017, following a change in legislation in British Columbia.

During the fourth quarter of 2018, the Company purchased $58.9 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 $3.6 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 $33.6 million in the fourth quarter of 2018 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 $10.8 million in the previous quarter and a gain of $2.6 million in the fourth quarter of 2017.

CHANGES IN FINANCIAL POSITION

At the end of 2018, Canfor had $252.7 million of cash and cash equivalents.

(millions of Canadian dollars)	**Q4 2018**	Q3 2018	Q4 2017
Cash generated from (used in)			
Operating activities	**$ (107.1)**	$ 201.1	$ 156.6
Financing activities	**$ (101.2)**	$ (66.3)	$ (65.8)
Investing activities	**$ (137.4)**	$ (114.5)	$ (81.5)
Increase (decrease) in cash and cash equivalents[45]	**$ (345.7)**	$ 20.3	$ 9.3

[45] 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 used in operating activities was $107.1 million in the fourth quarter of 2018, compared to cash generated of $201.1 million in the previous quarter and $156.6 million in the fourth quarter of 2017. The decrease in operating cash flows from the previous quarter primarily reflected a decline in operating cash earnings in the current quarter, combined with higher investments in working capital, driven by seasonally higher log inventories and increased lumber inventories. Cash duty deposits paid in the current quarter of 2018 were $29.7 million, compared to $55.5 million in the prior quarter and $21.5 million in the same quarter of 2017.

Compared to the fourth quarter of 2017, operating cash flows were down $263.7 million reflecting a decrease in cash earnings quarter-over-quarter and accelerated income tax payments in the current quarter.

Financing Activities

Cash used in financing activities was $101.2 million in the current quarter, compared to cash used of $66.3 million in the previous quarter and cash used of $65.8 million in the fourth quarter of 2017. During the current quarter, the Company made cash distributions of $68.6 million to non-controlling shareholders, up $66.5 million from with the previous quarter and up $66.8 million from the fourth quarter of 2017, reflecting a special dividend of $2.25 per common share paid by CPPI on November 13, 2018, as a result of strong cash generated by the pulp business over 2017 and 2018. In the fourth quarter of 2017 CPPI made an early repayment of its $50.0 million term debt. The Company had no balance outstanding on its operating loan facilities at the end of the fourth quarter of 2018, consistent with the prior quarter and the fourth quarter of 2017.

Cash used for financing activities also included share purchases under Canfor's Normal Course Issuer Bid. In the fourth quarter of 2018, Canfor purchased 1,123,490 common shares for $20.6 million (an average of $18.33 per share) and paid $3.7 million relating to shares purchased in the prior quarter. In the third quarter of 2018, Canfor purchased 2,282,590 common shares for $63.7 million (an average of $27.91 per share). In the fourth quarter of 2017, Canfor purchased 633,176 common shares for $15.7 million (an average of $24.80 per share). 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 $137.4 million in the current quarter, compared to $114.5 million in the previous quarter and $81.5 million in the same quarter of 2017. Capital additions were $140.2 million, up $23.0 million from the previous quarter and up $46.2 million from the fourth quarter of 2017. Current quarter capital expenditures included various smaller high-returning capital projects aimed at increasing drying capacity and productivity, in combination with more significant upgrades at the Company's sawmills in Georgia and Alabama. In the pulp and paper segment, capital expenditures primarily related to several capital projects including the aforementioned energy project at CPPI's Northwood NBSK pulp mill as well as CPPI's ongoing development of a new ERP software system. 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 (Loss)

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 2018**	**Q3 2018**	**Q2 2018**	**Q1 2018**	Q4 2017	Q3 2017	Q2 2017	Q1 2017
Shareholder net income (loss), as reported	**$ (52.4)**	**$ 125.3**	**$ 169.8**	**$ 112.2**	$ 131.8	$ 66.2	$ 81.3	$ 66.1
Foreign exchange (gain) loss on long-term debt	**$ 2.1**	**$ (0.7)**	**$ 1.0**	**$ 1.9**	$ 0.6	$ (4.4)	$ (2.9)	$ (1.0)
Countervailing and anti-dumping duty deposits, net of accrued recovery[46]	**$ 28.8**	**$ 31.1**	**$ 37.7**	**$ 25.5**	(17.3)	$ 23.8	$ 26.3	$ -
(Gain) loss on derivative financial instruments[47]	**$ (6.5)**	**$ 1.2**	**$ 5.6**	**$ 5.8**	$ 4.8	$ 1.4	$ -	$ (2.4)
Change in substantively enacted tax rates[48]	**$ -**	**$ -**	**$ -**	**$ -**	$ (5.1)	$ -	$ -	$ -
Mill closure provisions [49]	**$ -**	**$ -**	**$ -**	**$ -**	$ -	$ (2.4)	$ -	$ -
Gain on sale of Anthony EACOM Inc. [50]	**$ -**	**$ -**	**$ -**	**$ -**	-	$ -	$ -	$ (3.4)
Net impact of above items	**$ 24.4**	**$ 31.6**	**$ 44.3**	**$ 33.2**	$ (17.0)	$ 18.4	$ 23.4	$ (6.8)
Adjusted shareholder net income (loss)	**$ (28.0)**	**$ 156.9**	**$ 214.1**	**$ 145.4**	$ 114.8	$ 84.6	$ 104.7	$ 59.3
Shareholder net income (loss) per share (EPS), as reported	**$ (0.42)**	**$ 0.98**	**$ 1.32**	**$ 0.87**	$ 1.02	$ 0.51	$ 0.61	$ 0.50
Net impact of above items per share[51]	**$ 0.19**	**$ 0.25**	**$ 0.34**	**$ 0.26**	$ (0.13)	$ 0.14	$ 0.18	$ (0.05)
Adjusted net income (loss)per share[51]	**$ (0.23)**	**$ 1.23**	**$ 1.66**	**$ 1.13**	$ 0.89	$ 0.65	$ 0.78	$ 0.45

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

[47] The Company entered into Swedish Krona forward foreign exchange contracts in November 2018 and recorded a mark-to-market gain of $18.8 million in the fourth quarter of 2018, which was offset by realized and unrealized losses of $0.5 million on lumber and energy future sales contracts.

[48] 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.

[49] In the third quarter of 2017, $3.2 million (before-tax) of the closure provision related to Canal Flats sawmill was reversed.

[50] 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).

[51] 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

On January 30, 2019, the Company announced additional temporary curtailments at three of its British Columbia sawmills, which will further reduce production volumes by approximately 40 million board feet, for an estimated total impact on production of 95 million board feet in the first quarter of 2019.

Looking further ahead, the US housing market is currently forecast to show a modest recovery through 2019, while the repair and remodeling sector in the US is projected to record solid growth. North American lumber prices are anticipated to improve through the first quarter of 2019 primarily reflecting low inventories in the supply chain as a result of production curtailments and seasonally stronger demand during the traditionally busy spring building season. For the Company's key offshore lumber markets, demand is anticipated to remain solid through the first quarter of 2019. Prices in Europe are projected to be more stable reflecting solid demand in that region. Results through 2019 are anticipated to be impacted by continued log cost pressure in Western Canada as a result of ongoing log supply constraints.

Pulp and Paper Markets

Notwithstanding high inventory levels, global softwood kraft pulp markets are projected to be steady through the first half of 2019, reflecting an anticipated pick-up in demand from China and reduced supply during the traditional spring maintenance period. The BCTMP market is projected to be steady in the first half of 2019.

CPPI has no maintenance outages planned for the first quarter of 2019. Maintenance outages are currently planned at the Intercontinental NBSK pulp mill in the second quarter of 2019 with a projected 12,000 tonnes of reduced NBSK pulp production. Additional maintenance outages are scheduled at the Prince George NBSK pulp mill and the Taylor BCTMP mill in the third and fourth quarters of 2019 with a projected 6,000 tonnes of reduced NBSK pulp production and projected 5,000 tonnes of reduced BCTMP production, respectively. No scheduled maintenance outages are planned for CPPI's Northwood NBSK pulp mill in 2019.

Bleached kraft paper demand is expected to remain solid through the first quarter of 2019. A maintenance outage is currently planned at CPPI's paper machine during the third quarter of 2019 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, 2018		December 31, 2017	
	Defined Benefit Pension Plans	**Other Benefit Plans**	Defined Benefit Pension Plans	Other Benefit Plans
Discount rate	**3.6%**	**3.6%**	3.4%	3.4%
Rate of compensation increases	**3.0%**	**n/a**	3.0%	n/a
Initial medical cost trend rate	**n/a**	**5.5%**	n/a	6.5%
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, 2018 is between 21.1 years and 24.2 years (2017 - 21.0 years and 24.1 years). As at December 31, 2018, the weighted average duration of the defined benefit obligation, which reflects the average age of the plan members, is 12.0 years (2017 - 12.3 years). The weighted average duration of the other benefit plans is 13.3 years (2017 - 14.2 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 2018:

(millions of Canadian dollars)	1% Increase	1% Decrease
Defined benefit pension plan liabilities, net of annuity assets		
Discount rate	$ (48.0)	$ 59.0
Other benefit plan liabilities		
Discount rate	$ (13.1)	$ 16.1
Initial medical cost trend rate	$ 8.5	$ (7.6)

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 1.9% 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 re-evaluates 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 1 to 33 years and have been discounted at risk-free rates ranging from 1.9% to 2.2%. 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. For 2018, a pre-tax discount rate of 8%, based on the Company's current weighted average cost of capital and US denominated risk-adjusted internal borrowing rate, has been used in its goodwill assessment. 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 2018, 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 outlook prices and forecast exchange rates for the period over which the inventories are expected to be sold. Outlook prices are determined using management's estimates at the end of the period end, and may differ from the actual prices at which the inventories are sold.

FUTURE CHANGES IN ACCOUNTING POLICIES

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 an amortization expense for right-of-use assets and interest expense on lease liabilities.

IFRS 16 may be applied retrospectively to each prior period presented (full retrospective approach), or with the cumulative effect of adoption recognized at initial application (modified retrospective approach). The Company has elected to apply the modified retrospective approach upon adoption at January 1, 2019, measuring the right-of-use asset at its carrying amount had the standard been applied at commencement of the lease. The short-term and low-value recognition exemptions available under the standard will be utilized, along with certain practical expedients.

Based on lease data as at December 31, 2018, IFRS 16 is estimated to have the following financial statement impact on the Company's consolidated balance sheet at transition on January 1, 2019, with no material impact to 2019 net income:

(millions of Canadian dollars)			As at January 1, 2019
Right-of-use asset, net of accumulated amortization	Increase in assets	$	42.2
Lease obligation	Increase in liabilities		44.3
Deferred income tax	Decrease in liabilities		0.5
Retained earnings	Decrease in equity		1.6

The full quantification of the new standard will be disclosed in the condensed consolidated interim financial statements for the first quarter of 2019.

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 Indigenous 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.

Indigenous Relations

Canadian judicial decisions have recognized the continued existence of Indigenous rights and title to lands continuously and exclusively used or occupied by Indigenous groups. In June 2014, the Supreme Court of Canada, for the first time, recognized Indigenous 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 Indigenous title lands.

While Indigenous 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 Indigenous title over a specific piece of land and, in so doing, affirmed a broader territorial use-based approach to Indigenous title. The decision also further defines what Indigenous title means and the types of land uses consistent with this form of collective ownership.

Presently, Indigenous title has not been established by law in any areas overlapping Canfor's tenure areas; however, Indigenous 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 Indigenous 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 Indigenous Nations that include timber rights. Canfor holds numerous agreements with individual Indigenous 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 Indigenous rights and title develop and be resolved in Canadian courts, Canfor will continue to engage, cooperate and exchange information and views with Indigenous Nations and Government to foster good relationships and minimize risks to Canfor's tenures and operational plans.

Capital Requirements

The forest 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 2018 were $401.4 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, hurricanes, 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 is no guarantee 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, Europe 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, product mix, 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; 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. Following the planned acquisition of VIDA in the first half of 2019, the Company's operating results will also be sensitive to fluctuations of the Canadian dollar to the Swedish Krona.

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, 2017. 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, net of annuity assets, by an estimated $48.0 million and a one percentage point decrease in the discount rate would increase the accrued benefit obligation, net of annuity assets, by an estimated $59.0 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 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 harvesting 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, contract assets and certain investments in debt securities. Cash and cash equivalents include 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 accounts receivables. As at December 31, 2018, approximately 46% of the outstanding trade accounts receivables are covered by credit insurance. Canfor's trade accounts receivable balance at December 31, 2018 is $186.5 million before a loss allowance of $4.4 million. At December 31, 2018, approximately 98% 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, 2018, Canfor had no amount drawn on its operating loans, and accounts payable and accrued liabilities of $458.9 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, commodity prices and energy.

(i) *Interest Rate risk*:

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

Canfor may use 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 collar 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).

Canfor is also subject to Swedish Krona foreign exchange risk associated with the commitment to purchase VIDA in the first half of 2019. In order to reduce its exposure to fluctuations in the Swedish Krona versus the Canadian and US dollar, Canfor entered into forward foreign exchange contracts in 2018 (see "Liquidity and Financial Requirements" section and 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 foreign exchange contracts and option contracts to reduce its exposure to future movements of exchange rates and interest rates, and futures and forward contracts to reduce its exposure to 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 2019 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[52, 53]	$ 40
SYP lumber – US$10 change per Mfbm[52, 53]	$ 16
Softwood Lumber Duties – 5% change	$ 40
Pulp – US$10 change per tonne[54, 55]	$ 13
Canadian dollar – US$0.01 change per Canadian dollar[54, 55]	$ 24

[52] Based on sales of Canfor-produced product, before softwood lumber duties.
[53] Excluding impacts of exchange rate, freight, discounting, potential change in fibre costs and other deductions.
[54] Includes 100% of CPPI.
[55] 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 directed Canfor's harvesting activities in central and northern BC for more than a decade, but given the shelf-life expiry of the dead pine stands, the focus has now shifted to other coniferous species stands. To ensure that sufficient dead pine was being harvested to sustain the current allowable harvest rates and minimize impacts to the mid-term timber supply, the Chief Forester of British Columbia 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 allowable annual 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's collective agreements with the United Steelworkers ("USW") expired on June 30, 2018. The Company is encouraged that a Memorandum of Agreement ("MOA") for a new five-year term has been reached with the USW. The MOA includes seven of Canfor's certified mills in BC. The USW will be conducting ratification votes on the MOA during the first quarter of 2019.

In addition, Canfor has three mills represented in the negotiation process being led by the Interior Forest Labour Relations Association ("IFLRA"). Canfor remains optimistic that a settlement will be reached between the IFLRA and the USW.

The new collective agreements may result in increased operating costs because of higher wages or benefits paid to unionized workers. Continuation of the negotiations could result in rotating strikes 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.

The Company's collective agreement with the PPWC (Public and Private Workers of Canada) at its Mackenzie lumber operation expires June 30, 2019.

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 2018, Canfor provided approximately 66% 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 completed the construction and since 2016, has been 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. For the CVD rate, the first Administrative Review is anticipated to be based on sales and cost data through 2017 and 2018, with the ADD rate expected to be based off data from July 2017 to December 2018. These two CVD and ADD Administrative Reviews are 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.

Species at Risk

The Government of Canada pursuant to its authority under the Species at Risk Act (SARA), has determined several wildlife species to be critically imperiled and has listed them as Endangered or Threatened. The Environment and Climate Change Canada (ECCC) ministry is required under SARA to create and publish a Recovery Strategy for such listed species. In 2012 and in 2014, Canada published a Recovery Strategy for the Boreal Caribou (Rangifer Tarandus Caribou – Boreal population) and the Southern Mountain Caribou (Rangifer Tarandus Caribou) – Southern Mountain population), each of which are species native to large tracts the boreal forests of northern British Columbia and Alberta, and of the mountains of British Columbia and the western slopes of the Rocky Mountains in Alberta, respectively. The Recovery Strategy identifies critical habitat and prescribes that each Province must develop and implement an action plan to recover the species and protect its critical habitat. If Canada determines that a Province is not providing for adequate protection for a species, then Canada reserves the right to levy protection orders that would prohibit activities deemed harmful to the species or destructive to its critical habitat.

In May 2018, the federal Minister of Environment and Climate Change Canada determined that 10 Local Population Units of Southern Mountain Caribou (essentially a collection of contiguous herds) were at imminent threat of recovery of the species. Under SARA, the Minister must now recommend to the Governor in Council (Cabinet) that an emergency order be levied. It remains uncertain of both the scope and locations of activities that will be recommended for prohibition as well as if the Cabinet will accept or modify those recommendations.

Canada and British Columbia are seeking to strike a bilateral SARA Section 11 conservation agreement, whilst simultaneously engaging with two local First Nations to develop a caribou conservation plan in the South Peace area. Those negotiations are ongoing, and it remains uncertain precisely what the final outcomes and subsequent impacts will be; however, it is anticipated that portions of the timber harvesting land base (THLB) will be protected in a way that will preclude timber harvesting and related activities and that this will eventually result in a reduction of Allowable Annual Cut in the affected management units.

The impacts of the protection measures being contemplated for species at risk generally and Southern Mountain Caribou and Boreal Caribou in particular, remain unknown. Canfor continues to work with all governments (federal, provincial, municipal) and with its provincial and national forest associations in an effort to minimize economic impacts that could result from these land use decisions.

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 next annual update to the MPS on July 1, 2019. 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. While these initiatives remain active in place today, inspectional activity has begun to normalize as wood products manufacturers have implemented and maintained robust wood dust management programs. Nonetheless, additional regulatory initiatives up to and including stop work conditions within the industry have occurred and remain a possibility.

OUTSTANDING SHARE DATA

At February 21, 2019, there were 125,219,400 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, 2018 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, 2018, 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, 2018, the CEO and CFO have concluded that these controls are operating effectively.

During the year ended December 31, 2018, the Company successfully completed the implementation of a new general ledger system across all of its divisions and locations. The Company's internal controls were maintained or supplemented by controls added during this system implementation and related process improvements.

Additional information about the Company, including its 2018 Annual Information Form, is available at www.sedar.com or at www.canfor.com.