2016

CANFOR CORPORATION
QUARTER THREE
FINANCIAL STATEMENTS

Canfor Corporation
Condensed Consolidated Balance Sheets

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

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

APPROVED BY THE BOARD

"R.S. Smith" *"M.J. Korenberg"*

Director, R.S. Smith Director, M.J. Korenberg

Canfor Corporation
Condensed Consolidated Statements of Income

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

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

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

(millions of Canadian dollars, unaudited)	3 months ended September 30, 2016	3 months ended September 30, 2015	9 months ended September 30, 2016	9 months ended September 30, 2015
Net income	**$ 66.4**	$ 1.4	**$ 159.7**	$ 72.3
Other comprehensive income (loss)				
Items that will not be recycled through net income:				
Defined benefit pension plan actuarial gains (losses) (Note 5)	**(2.0)**	13.3	**(71.2)**	31.2
Income tax recovery (expense) on defined benefit pension plan actuarial gains (losses) (Note 7)	**0.5**	(3.4)	**18.5**	(8.1)
	(1.5)	9.9	**(52.7)**	23.1
Items that may be recycled through net income:				
Foreign exchange translation differences for foreign operations, net of tax	**3.8**	29.2	**(21.5)**	57.3
Change in fair value of available-for-sale financial instruments, net of tax	**0.2**	-	**0.2**	-
Other comprehensive income (loss), net of tax	**2.5**	39.1	**(74.0)**	80.4
Total comprehensive income	**$ 68.9**	$ 40.5	**$ 85.7**	$ 152.7
Total comprehensive income attributable to:				
Equity shareholders of the Company	**$ 53.8**	$ 20.4	**$ 45.3**	$ 101.0
Non-controlling interests	**15.1**	20.1	**40.4**	51.7
Total comprehensive income	**$ 68.9**	$ 40.5	**$ 85.7**	$ 152.7

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

Canfor Corporation
Condensed Consolidated Statements of Changes in Equity

(millions of Canadian dollars, unaudited)	3 months ended September 30, 2016	3 months ended September 30, 2015	9 months ended September 30, 2016	9 months ended September 30, 2015
Share capital				
Balance at beginning of period	**$ 1,047.7**	$ 1,056.0	**$ 1,047.7**	$ 1,068.0
Share purchases (Note 8)	**-**	-	**-**	(12.0)
Balance at end of period	**$ 1,047.7**	$ 1,056.0	**$ 1,047.7**	$ 1,056.0
Contributed surplus and other equity				
Balance at beginning of period	**$ (74.5)**	$ (74.5)	**$ (74.5)**	$ 31.9
Forward purchase liabilities related to acquisitions (Note 12)	**69.9**	-	**69.9**	(106.4)
Balance at end of period	**$ (4.6)**	$ (74.5)	**$ (4.6)**	$ (74.5)
Retained earnings				
Balance at beginning of period	**$ 270.0**	$ 283.1	**$ 257.7**	$ 260.1
Net income (loss) attributable to equity shareholders of the Company	**50.9**	(17.3)	**112.9**	23.1
Defined benefit pension plan actuarial gains (losses), net of tax	**(1.0)**	8.5	**(46.2)**	20.6
Share purchases (Note 8)	**-**	-	**-**	(27.2)
Elimination of non-controlling interests (Note 12)	**(20.0)**	-	**(20.0)**	-
Acquisition of non-controlling interests (Note 8)	**-**	(1.6)	**(4.5)**	(3.9)
Balance at end of period	**$ 299.9**	$ 272.7	**$ 299.9**	$ 272.7
Accumulated other comprehensive income				
Balance at beginning of period	**$ 74.7**	$ 55.3	**$ 100.0**	$ 27.2
Foreign exchange translation differences for foreign operations, net of tax	**3.8**	29.2	**(21.5)**	57.3
Change in fair value of available-for-sale financial instruments, net of tax	**0.1**	-	**0.1**	-
Balance at end of period	**$ 78.6**	$ 84.5	**$ 78.6**	$ 84.5
Total equity attributable to equity shareholders of the Company	**$ 1,421.6**	$ 1,338.7	**$ 1,421.6**	$ 1,338.7
Non-controlling interests				
Balance at beginning of period	**$ 290.7**	$ 318.1	**$ 296.8**	$ 250.4
Net income attributable to non-controlling interests	**15.5**	18.7	**46.8**	49.2
Defined benefit pension plan actuarial gains (losses) attributable to non-controlling interests, net of tax	**(0.5)**	1.4	**(6.5)**	2.5
Change in fair value of available-for-sale financial instruments, net of tax	**0.1**	-	**0.1**	-
Distributions to non-controlling interests	**(11.6)**	(43.1)	**(23.1)**	(52.8)
Elimination of non-controlling interests (Note 12)	**(39.7)**	-	**(39.7)**	-
Acquisition of non-controlling interests (Note 8)	**-**	(5.3)	**(19.9)**	(12.0)
Non-controlling interests arising on acquisitions (Note 12)	**-**	-	**-**	52.5
Balance at end of period	**$ 254.5**	$ 289.8	**$ 254.5**	$ 289.8
Total equity	**$ 1,676.1**	$ 1,628.5	**$ 1,676.1**	$ 1,628.5

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

Canfor Corporation
Condensed Consolidated Statements of Cash Flows

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

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

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

1. Basis of Preparation

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

These financial statements do not include all of the disclosures required by International Financial Reporting Standards ("IFRS") for annual financial statements. Additional disclosures relevant to the understanding of these financial statements, including the accounting policies applied, can be found in the Company's Annual Report for the year ended December 31, 2015, available at www.canfor.com or www.sedar.com.

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

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

Accounting Standards Issued and Not Applied

In May 2014, the International Accounting Standards Board ("IASB") issued IFRS 15, *Revenue from Contracts with Customers*, which will supersede IAS 18, *Revenue*, IAS 11, *Construction Contracts* and related interpretations. The new standard is effective for annual periods beginning on or after January 1, 2018. The Company is in the process of assessing the impact, if any, on the financial statements of this new standard.

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

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

2. Inventories

(millions of Canadian dollars, unaudited)		**As at September 30, 2016**		As at December 31, 2015
Logs	**$**	**116.7**	$	169.1
Finished products		**278.1**		285.4
Residual fibre		**23.0**		20.8
Processing materials and supplies		**116.3**		111.9
	$	**534.1**	$	587.2

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

3. Long-Term Investments and Other

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

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

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

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

4. Operating Loans and Long-Term Debt

(a) Available Operating Loans

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

In 2015, Canfor's principal operating loans, excluding CPPI, were extended to September 28, 2020 and certain financial covenants were removed. Interest is payable on the operating loans at floating rates based on the lenders' Canadian prime rate, bankers acceptances, US dollar base rate or US dollar LIBOR rate, plus a margin that varies with the Company's debt to total capitalization ratio.

CPPI extended the maturity date on its operating loan facility to January 31, 2019 and also removed certain financial covenants in 2015. The terms of CPPI's operating loan facility also include interest payable at floating rates that vary depending on the ratio of debt to total capitalization and is based on lenders' Canadian prime rate, bankers acceptances, US dollar base rate or US dollar LIBOR rate, plus a margin.

Both Canfor's and CPPI's operating loan facilities have certain financial covenants, including maximum debt to total capitalization ratios. In 2015, with the extension of both operating facilities, the financial covenants were modified to exclude minimum net worth covenants based on shareholders' equity.

Canfor (excluding CPPI) has a separate facility to cover letters of credit. At September 30, 2016, $36.7 million of letters of credit outstanding are covered under this facility with the balance of $2.5 million covered under Canfor's general operating loan facility.

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

As at September 30, 2016, the Company and CPPI are in compliance with all covenants relating to their operating loans. Substantially all borrowings of CPPI are non-recourse to other entities within the Company.

(b) Long-Term Debt

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

In 2015, the Company repaid $175.0 million of its floating interest rate term debt and completed a new $125.0 million floating interest rate term debt financing with the same syndicate of lenders with a maturity of September 28, 2020. The term debt financing was completed to rebalance the Company's debt levels prior to the completion of the US-dollar financings described below. Consistent with the Company's principal operating loan facility, interest is payable on the $125.0 million term debt based on the lenders' Canadian prime rate, bankers acceptances, US dollar base rate or US dollar LIBOR rate, plus a margin that varies with the Company's debt to total capitalization ratio.

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

On September 28, 2015, the Company entered into a new eight-year floating interest rate term loan for US$100.0 million to further support its growth in the US. The debt is repayable on September 28, 2023 with interest payable based on LIBOR plus a margin.

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

As at September 30, 2016, the Company and CPPI are in compliance with all covenants relating to their long-term debt.

5. Employee Future Benefits

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

For the Company's defined benefit pension plans, a one percentage point increase in the discount rate used in calculating the actuarial estimate of future liabilities would decrease the accrued benefit obligation by an estimated $102.7 million.

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

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

6. Financial Instruments

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

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

The three levels of the fair value hierarchy are:

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

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

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

The following table summarizes Canfor's financial instruments measured at fair value at September 30, 2016 and December 31, 2015, and shows the level within the fair value hierarchy in which the financial instruments have been classified:

(millions of Canadian dollars, unaudited)	Fair Value Hierarchy Level	**As at September 30, 2016**	As at December 31, 2015
Financial assets measured at fair value			
Investments - held for trading	Level 1	**$ 14.5**	$ 17.2
Derivative financial instruments - held for trading	Level 2	**0.6**	-
Investments - available-for-sale	Level 3	**3.8**	-
Royalty receivable - available-for-sale	Level 3	**-**	0.2
		$ 18.9	$ 17.4
Financial liabilities measured at fair value			
Derivative financial instruments - held for trading	Level 2	**$ 1.0**	$ 4.8
		$ 1.0	$ 4.8

Canfor invests in equity and debt securities, which are traded in an active market and valued using closing prices on the measurement date with gains or losses recognized through comprehensive income. The Company also invests in equity securities, which trade infrequently and have little price transparency. These Level 3 financial instruments are measured at fair value at each reporting period based on management's best estimates with any gains or losses recognized through other comprehensive income.

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

At September 30, 2016, the fair value of derivative financial instruments is a net liability of $0.4 million (December 31, 2015 - net liability of $4.8 million). The fair value of these financial instruments was determined based on prevailing market rates for instruments with similar characteristics.

The following table summarizes the gain (loss) on derivative financial instruments for the three and nine-month periods ended September 30, 2016 and 2015:

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

7. Income Taxes

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

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

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

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

Also included in other comprehensive income (loss) for the three months ended September 30, 2016 was a tax expense of $0.3 million related to foreign exchange differences on translation of investments in foreign operations and change in fair value of available-for-sale financial instruments (three months ended September 30, 2015 - tax expense of $2.7 million). For the nine months ended September 30, 2016, the tax recovery was $2.0 million (nine months ended September 30, 2015 - tax expense of $4.6 million).

8. Earnings Per Share and Normal Course Issuer Bid

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

	3 months ended September 30,		9 months ended September 30,	
	2016	2015	**2016**	2015
Weighted average number of common shares	**132,804,573**	133,854,693	**132,804,573**	134,324,118

On March 7, 2016, the Company renewed its normal course issuer bid whereby it can purchase for cancellation up to 6,640,227 common shares or approximately 5% of its issued and outstanding common shares as of March 1, 2016. The renewed normal course issuer bid is set to expire on March 6, 2017. During the third quarter of 2016, Canfor did not purchase any common shares. As at October 26, 2016, there were 132,804,573 common shares of the Company outstanding.

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

9. Net Change in Non-Cash Working Capital

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

10. Segment Information

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

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

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

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

[1]Capital expenditures represent cash paid for capital assets during the periods. Pulp & Paper includes capital expenditures by CPPI that were partially financed by government grants. Capital expenditures exclude the assets purchased as part of the acquisitions of Scotch & Gulf Lumber, LLC, Beadles Lumber Company & Balfour Lumber Company Inc., Southern Lumber Company Inc. and Anthony Forest Products Company in 2015, and Wynndel Box and Lumber Ltd. in 2016 (Note 12).

11. Houston Pellet Limited Partnership Settlement

On June 28, 2016, Houston Pellet Limited Partnership ("HPLP") settled various legal claims with a logistics terminal located in Northern British Columbia related to unloading, storage, handling and shipping services for wood pellets manufactured by HPLP. Settlement funds of $16.3 million were paid to HPLP in the third quarter of 2016, all of which was accrued at June 30, 2016. Certain machinery and equipment involved in the settlement were impaired resulting in approximately $0.8 million in impairment charges recorded by HPLP. The net gain of $15.5 million was recorded in Operating Income net of Manufacturing and Product Costs in the second quarter of 2016. Canfor owns a 60% interest in HPLP.

12. Acquisitions

(a) US South

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

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

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

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

Beadles & Balfour will be 100% owned in January 2017. Canfor has recorded a forward purchase liability of $40.8 million for the final step of the Beadles & Balfour phased acquisition. The Company calculated the non-controlling interest related to Beadles & Balfour as the non-controlling share of the fair value of the net identifiable assets at the acquisition date.

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

(b) Wynndel Box and Lumber Ltd.

On April 15, 2016, the Company completed the acquisition of the assets of Wynndel Box and Lumber Ltd. (“Wynndel”) for $31.6 million, excluding working capital. At the acquisition date, the Company paid $19.7 million, and a working capital true-up payment of $2.6 million was paid in early July. The remaining consideration of $18.0 million will be paid in two installments. The first installment of $14.4 million is scheduled to be paid on April 15, 2017 and is included in Accounts Payable and Accrued Liabilities, and the second installment of $3.6 million is scheduled to be paid on October 15, 2017 and is recorded under Other Long-Term Liabilities. The acquisition has been accounted for in accordance with IFRS 3, *Business Combinations*.

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

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

(millions of Canadian dollars, unaudited)		**As at April 15, 2016**
Total consideration		
Cash consideration paid	$	**19.7**
Consideration payable		**20.6**
Total consideration	$	**40.3**

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

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