2015
CANFOR CORPORATION
QUARTER TWO FINANCIAL STATEMENTS

Canfor Corporation
Condensed Consolidated Balance Sheets

(millions of Canadian dollars, unaudited)		**As at June 30, 2015**		As at December 31, 2014
ASSETS				
Current assets				
Cash and cash equivalents	**$**	**143.9**	$	158.3
Restricted cash (Note 13(b))		**-**		50.2
Accounts receivable - Trade		**149.2**		91.3
- Other		**65.9**		38.8
Inventories (Note 2)		**534.9**		517.7
Prepaid expenses and other assets		**89.0**		46.3
Total current assets		**982.9**		902.6
Property, plant and equipment		**1,337.8**		1,216.1
Timber licenses		**511.9**		519.5
Goodwill and other intangible assets (Note 13(a,b,c))		**181.4**		105.0
Retirement benefit surplus (Note 5)		**3.8**		0.6
Long-term investments and other (Note 3)		**40.0**		101.3
Deferred income taxes, net		**0.9**		1.7
Total assets	**$**	**3,058.7**	$	2,846.8
LIABILITIES				
Current liabilities				
Operating loans (Note 4)	**$**	**142.0**	$	68.0
Accounts payable and accrued liabilities		**348.7**		305.8
Current portion of deferred reforestation obligations		**51.9**		52.1
Total current liabilities		**542.6**		425.9
Long-term debt		**228.9**		228.6
Retirement benefit obligations (Note 5)		**258.5**		263.2
Deferred reforestation obligations		**62.4**		60.0
Other long-term liabilities		**21.3**		19.6
Forward purchase liabilities (Note 13(a,b))		**106.3**		-
Deferred income taxes, net		**200.7**		211.9
Total liabilities	**$**	**1,420.7**	$	1,209.2
EQUITY				
Share capital	**$**	**1,056.0**	$	1,068.0
Contributed surplus and other equity		**(74.5)**		31.9
Retained earnings		**283.1**		260.1
Accumulated foreign exchange translation differences		**55.3**		27.2
Total equity attributable to equity holders of the Company		**1,319.9**		1,387.2
Non-controlling interests		**318.1**		250.4
Total equity	**$**	**1,638.0**	$	1,637.6
Total liabilities and equity	**$**	**3,058.7**	$	2,846.8

Subsequent Events (Note 14)

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

APPROVED BY THE BOARD

"R.S. Smith"
Director, R.S. Smith

"M.J. Korenberg"
Director, M.J. Korenberg

Canfor Corporation
Condensed Consolidated Statements of Income

(millions of Canadian dollars, except per share data, unaudited)	3 months ended June 30, **2015**	3 months ended June 30, 2014	6 months ended June 30, **2015**	6 months ended June 30, 2014
Sales	**$ 952.4**	$ 907.3	**$ 1,882.4**	$ 1,649.2
Costs and expenses				
Manufacturing and product costs	**690.2**	587.2	**1,316.0**	1,065.9
Freight and other distribution costs	**159.3**	156.4	**305.5**	270.2
Export taxes	**10.5**	-	**10.5**	-
Amortization	**52.2**	44.0	**101.5**	88.5
Selling and administration costs	**21.7**	20.7	**44.0**	39.0
Restructuring, mill closure and severance costs	**0.9**	1.7	**3.6**	3.9
	934.8	810.0	**1,781.1**	1,467.5
Operating income	**17.6**	97.3	**101.3**	181.7
Finance expense, net	**(5.6)**	(4.4)	**(10.9)**	(8.8)
Gain (loss) on derivative financial instruments (Note 6)	**12.7**	3.1	**(15.3)**	(0.4)
Other income (expense), net	**3.3**	(10.8)	**14.1**	(7.5)
Net income before income taxes	**28.0**	85.2	**89.2**	165.0
Income tax expense (Note 7)	**(4.1)**	(20.7)	**(18.3)**	(41.9)
Net income	**$ 23.9**	$ 64.5	**$ 70.9**	$ 123.1
Net income attributable to:				
Equity shareholders of the Company	**$ 11.1**	$ 54.3	**$ 40.4**	$ 99.8
Non-controlling interests	**12.8**	10.2	**30.5**	23.3
Net income	**$ 23.9**	$ 64.5	**$ 70.9**	$ 123.1
Net income per common share: (in Canadian dollars)				
Attributable to equity shareholders of the Company				
- Basic and diluted (Note 8)	**$ 0.08**	$ 0.39	**$ 0.30**	$ 0.72

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 June 30, 2015	3 months ended June 30, 2014	6 months ended June 30, 2015	6 months ended June 30, 2014
Net income	**$ 23.9**	$ 64.5	**$ 70.9**	$ 123.1
Other comprehensive income (loss)				
Items that will not be recycled through net income:				
Defined benefit plan actuarial gains (losses) (Note 5)	**22.2**	(35.5)	**17.9**	(68.3)
Income tax recovery (expense) on defined benefit plan actuarial gains (losses) (Note 7)	**(5.8)**	9.3	**(4.7)**	17.8
	16.4	(26.2)	**13.2**	(50.5)
Items that may be recycled through net income:				
Foreign exchange translation differences for foreign operations, net of tax	**(6.2)**	(10.0)	**28.1**	0.6
Other comprehensive income (loss), net of tax	**10.2**	(36.2)	**41.3**	(49.9)
Total comprehensive income	**$ 34.1**	$ 28.3	**$ 112.2**	$ 73.2
Total comprehensive income attributable to:				
Equity shareholders of the Company	**$ 19.1**	$ 19.0	**$ 80.6**	$ 54.2
Non-controlling interests	**15.0**	9.3	**31.6**	19.0
Total comprehensive income	**$ 34.1**	$ 28.3	**$ 112.2**	$ 73.2

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Canfor Corporation
Condensed Consolidated Statements of Changes in Equity

(millions of Canadian dollars, unaudited)	3 months ended June 30, 2015	3 months ended June 30, 2014	6 months ended June 30, 2015	6 months ended June 30, 2014
Share capital				
Balance at beginning of period	**$ 1,059.3**	$ 1,102.2	**$ 1,068.0**	$ 1,103.7
Share purchases (Note 8)	**(3.3)**	(34.2)	**(12.0)**	(35.7)
Balance at end of period	**$ 1,056.0**	$ 1,068.0	**$ 1,056.0**	$ 1,068.0
Contributed surplus and other equity				
Balance at beginning of period	**$ (74.5)**	$ 31.9	**$ 31.9**	$ 31.9
Forward purchase liability related to acquisitions (Note 13(a,b))	**-**	-	**(106.4)**	-
Balance at end of period	**$ (74.5)**	$ 31.9	**$ (74.5)**	$ 31.9
Retained earnings				
Balance at beginning of period	**$ 264.9**	$ 255.3	**$ 260.1**	$ 234.2
Net income attributable to equity shareholders of the Company	**11.1**	54.3	**40.4**	99.8
Defined benefit plan actuarial gains (losses), net of tax	**14.2**	(25.3)	**12.1**	(46.2)
Share purchases (Note 8)	**(6.6)**	(69.7)	**(27.2)**	(73.2)
Acquisition of non-controlling interests (Note 8)	**(0.5)**	-	**(2.3)**	-
Balance at end of period	**$ 283.1**	$ 214.6	**$ 283.1**	$ 214.6
Accumulated foreign exchange translation differences				
Balance at beginning of period	**$ 61.5**	$ 15.1	**$ 27.2**	$ 4.5
Foreign exchange translation differences for foreign operations, net of tax	**(6.2)**	(10.0)	**28.1**	0.6
Balance at end of period	**$ 55.3**	$ 5.1	**$ 55.3**	$ 5.1
Total equity attributable to equity holders of the Company	**$ 1,319.9**	$ 1,319.6	**$ 1,319.9**	$ 1,319.6
Non-controlling interests				
Balance at beginning of period	**$ 311.3**	$ 230.7	**$ 250.4**	$ 223.1
Net income attributable to non-controlling interests	**12.8**	10.2	**30.5**	23.3
Defined benefit plan actuarial gains (losses) attributable to non-controlling interests, net of taxes	**2.2**	(0.9)	**1.1**	(4.3)
Distributions to non-controlling interests	**(6.7)**	(2.9)	**(9.7)**	(5.0)
Acquisition of non-controlling interests (Note 8)	**(1.5)**	-	**(6.7)**	-
Non-controlling interests arising on acquisitions (Note 13(a,b))	**-**	-	**52.5**	-
Balance at end of period	**$ 318.1**	$ 237.1	**$ 318.1**	$ 237.1
Total equity	**$ 1,638.0**	$ 1,556.7	**$ 1,638.0**	$ 1,556.7

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

Canfor Corporation
Condensed Consolidated Statements of Cash Flows

(millions of Canadian dollars, unaudited)	3 months ended June 30, 2015	3 months ended June 30, 2014	6 months ended June 30, 2015	6 months ended June 30, 2014
Cash generated from (used in):				
Operating activities				
Net income	**$ 23.9**	$ 64.5	**$ 70.9**	$ 123.1
Items not affecting cash:				
Amortization	**52.2**	44.0	**101.5**	88.5
Income tax expense	**4.1**	20.7	**18.3**	41.9
Long-term portion of deferred reforestation obligations	**(10.4)**	(9.2)	**2.0**	4.2
Changes in mark-to-market value of derivative financial instruments	**(18.7)**	(3.0)	**0.4**	0.4
Employee future benefits	**3.7**	3.2	**7.4**	6.4
Finance expense, net	**5.6**	4.4	**10.9**	8.8
Other, net	**(3.1)**	4.3	**7.9**	8.6
Defined benefit plan withdrawals (contributions), net	**(5.5)**	(5.9)	**(2.5)**	(19.4)
Income taxes paid, net	**(12.1)**	(9.5)	**(34.1)**	(21.3)
	39.7	113.5	**182.7**	241.2
Net change in non-cash working capital (Note 9)	**86.3**	92.8	**(14.9)**	(85.0)
	126.0	206.3	**167.8**	156.2
Financing activities				
Change in operating bank loans (Note 4)	**(41.0)**	(39.0)	**74.0**	67.8
Finance expenses paid	**(3.0)**	(2.6)	**(5.6)**	(5.4)
Share purchases (Note 8)	**(13.2)**	(105.7)	**(39.2)**	(107.7)
Acquisition of non-controlling interests (Note 8)	**(7.3)**	-	**(9.0)**	-
Cash distributions paid to non-controlling interests	**(6.7)**	(2.9)	**(9.7)**	(5.0)
	(71.2)	(150.2)	**10.5**	(50.3)
Investing activities				
Additions to property, plant and equipment and intangible assets, net	**(49.4)**	(63.0)	**(95.2)**	(116.1)
Acquisition of Southern Lumber (Note 13(c))	**(65.6)**	-	**(65.6)**	-
Acquisition of Beadles & Balfour (Note 13(b))	**(0.8)**	-	**(51.6)**	-
Change in restricted cash (Note 13(b))	**-**	-	**50.2**	-
Acquisition of Scotch Gulf, net of cash acquired (Note 13(a))	**-**	-	**(22.3)**	-
Loan repayment from Scotch Gulf (Note 13(a))	**-**	2.1	**4.1**	4.7
Proceeds on sale of Daaquam Sawmill (Note 11)	**-**	22.9	**-**	22.9
Other, net	**(9.3)**	1.7	**(12.3)**	0.8
	(125.1)	(36.3)	**(192.7)**	(87.7)
Increase (decrease) in cash and cash equivalents*	**(70.3)**	19.8	**(14.4)**	18.2
Cash and cash equivalents at beginning of period*	**214.2**	87.9	**158.3**	89.5
Cash and cash equivalents at end of period*	**$ 143.9**	$ 107.7	**$ 143.9**	$ 107.7

*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.

Canfor Corporation
Notes to the Condensed Consolidated Financial Statements
(unaudited, millions of Canadian dollars unless otherwise noted)

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, 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, 2014, available at www.canfor.com or www.sedar.com.

There have been no new estimates or judgments since the 2014 annual financial statements with the exception of those related to the acquisitions of Scotch & Gulf Lumber, LLC ("Scotch Gulf"), Beadles Lumber Company & Balfour Lumber Company Inc. ("Beadles & Balfour"), and Southern Lumber Company Inc. ("Southern Lumber") (Note 13).

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 affects 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 July 21, 2015.

Accounting Standards Issued and Not Applied

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

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

Further details of the new accounting standards and potential impact on Canfor can be found in the Company's Annual Report for the year ended December 31, 2014.

2. Inventories

(millions of Canadian dollars, unaudited)	**As at June 30, 2015**	As at December 31, 2014
Logs	**$ 99.8**	$ 122.6
Finished products	**318.0**	281.0
Residual fibre	**9.0**	10.3
Processing materials and supplies	**108.1**	103.8
	$ 534.9	$ 517.7

At June 30, 2015, the inventory write-down in order to record inventory at the lower of cost and net realizable value was $1.0 million (December 31, 2014 – nil).

3. Long-Term Investments and Other

(millions of Canadian dollars, unaudited)	**As at June 30, 2015**	As at December 31, 2014
Investments	**$ 15.4**	$ 64.4
Term loan Scotch Gulf (Note 13(a))	**-**	23.2
Other deposits, loans and advances	**24.6**	13.7
	$ 40.0	$ 101.3

On January 30, 2015 Canfor was deemed to have control of Scotch Gulf (Note 13 (a)). The acquisition method of accounting was applied on the acquisition date of January 30, 2015 and the equity investment in Scotch Gulf recorded in Long-Term Investments and Other was derecognised. The term loan between Canfor and Scotch Gulf was eliminated on consolidation of Scotch Gulf.

Investments also include the Company's 33.3% investment in Lakeland Mills Ltd. and Winton Global Lumber Ltd. for which the Company does not exercise significant influence and records as a level 3 financial instrument measured at fair value, which is determined based on the future expected cash flows of the underlying investments. At December 31, 2014, the fair value of the Company's investment in Lakeland Mills Ltd. and Winton Global Lumber Ltd. was $23.0 million. During the second quarter of 2015, a fair market value adjustment of $7.0 million was recognized in Other Income, increasing the total value of the investment to $30.0 million at June 30, 2015. Subsequent to quarter end, on July 1, 2015, the Company sold its 33.3% investment in Lakeland Mills Ltd. and Winton Global Lumber Ltd. for $30.0 million. To reflect the timing of the consideration payments, $15.0 million of the financial instrument was reclassified to Other Accounts Receivable at June 30, 2015. See further discussion of the subsequent event and fair market value adjustment in Note 14.

4. Operating Loans

Available Operating Loans

(millions of Canadian dollars, unaudited)		**As at June 30, 2015**		As at December 31, 2014
Canfor (excluding CPPI)				
Available Operating Loans:				
Operating loan facility - Canfor (excluding CPPI)	**$**	**350.0**	$	350.0
Facility for letters of credit - Canfor (excluding CPPI)		**37.5**		37.5
Total operating loans – Canfor (excluding CPPI)		**387.5**		387.5
Operating loan drawn		**(142.0)**		(68.0)
Letters of credit		**(38.8)**		(13.8)
Total available operating loans - Canfor (excluding CPPI)	**$**	**206.7**	$	305.7
CPPI				
Available Operating Loans:				
Operating loan facility	**$**	**110.0**	$	110.0
Facility for letters of credit related to energy agreements		**20.0**		20.0
Total operating loans - CPPI		**130.0**		130.0
Operating loan drawn		**-**		-
Energy letters of credit		**(11.6)**		(12.2)
Total available operating loans - CPPI	**$**	**118.4**	$	117.8
Consolidated:				
Total operating loans	**$**	**517.5**	$	517.5
Total available operating loans	**$**	**325.1**	$	423.5

Canfor's principal operating loans, excluding Canfor Pulp Products Inc. ("CPPI"), mature on February 28, 2019. Interest is payable 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 net debt to total capitalization ratio.

The terms of CPPI's operating loan facility include interest payable at floating rates that vary depending on the ratio of net 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. The maturity date of this facility is January 31, 2018.

Canfor (excluding CPPI) has a separate facility to cover letters of credit. At June 30, 2015, $34.3 million of letters of credit were covered under this facility with the balance of $4.5 million covered under Canfor's general operating loan facility.

CPPI has a separate facility to cover energy-related letters of credit. During the second quarter of 2015, CPPI extended the maturity on this facility to June 30, 2016. At June 30, 2015, $9.4 million of energy-related letters of credit were covered under this facility with the balance of $2.2 million covered under CPPI's general operating loan facility.

Both Canfor's and CPPI's operating loan facilities have certain financial covenants that stipulate maximum net debt to total capitalization ratios and minimum net worth amounts based on shareholders' equity.

As at June 30, 2015, the Company and CPPI were in compliance with all covenants relating to their operating loans. Substantially all borrowings of CPPI (operating loans and long-term debt) are non-recourse to other entities within the Company.

5. Employee Future Benefits

For the three months ended June 30, 2015, defined benefit actuarial gains of $22.2 million (before tax) were recognized in other comprehensive income. The gains recorded in the second quarter of 2015 principally reflect a higher discount rate used to value the net defined benefit obligations. For the six months ended June 30, 2015, gains of $17.9 million (before tax) were recognized in other comprehensive income. For the three months ended June 30, 2014, an amount of $35.5 million (before tax) was charged to other comprehensive income, and for the six months ended June 30, 2014, the losses were $68.3 million (before tax).

For the Company's defined benefit plans, a one percentage point increase in the discount rate used in calculating the actuarial estimate of future liabilities would decrease the accrued benefit obligation by an estimated $113.0 million.

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

	Pension Benefit Plans	Other Benefit Plans
June 30, 2015	**3.90%**	**3.90%**
March 31, 2015	3.60%	3.60%
December 31, 2014	3.90%	3.90%
June 30, 2014	4.30%	4.40%
March 31, 2014	4.40%	4.50%
December 31, 2013	4.80%	4.90%

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. At June 30, 2015, the fair value of the Company's long-term debt approximates its amortized cost of $228.9 million (December 31, 2014 - $228.6 million).

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 June 30, 2015 and December 31, 2014, and shows the level within the fair value hierarchy in which they have been classified:

(millions of Canadian dollars, unaudited)	Fair Value Hierarchy Level		**As at June 30, 2015**		As at December 31, 2014
Financial assets measured at fair value					
Derivative financial instruments – held for trading	Level 2	**$**	**-**	$	0.3
Royalty receivable – available for sale	Level 3		**1.6**		2.9
		$	**1.6**	$	3.2
Financial liabilities measured at fair value					
Derivative financial instruments – held for trading	Level 2	**$**	**9.2**	$	9.1
		$	**9.2**	$	9.1

The royalty receivable is measured at fair value at each reporting period and is presented in Other Accounts Receivable on the consolidated balance sheet. The fair value of the royalty receivable is determined by discounting future expected cash flows based on energy price assumptions and future sales volume assumptions until the termination of the royalty agreement in September 2015.

The Company uses a variety of derivative financial instruments to reduce its exposure to risks associated with fluctuations in foreign exchange rates, lumber prices, pulp prices, energy costs, and floating interest rates on long-term debt.

At June 30, 2015, the fair value of derivative financial instruments was a net liability of $9.2 million (December 31, 2014 - net liability of $8.8 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 gains (losses) on derivative financial instruments for the three and six month periods ended June 30, 2015 and 2014:

	3 months ended June 30,				6 months ended June 30,			
(millions of Canadian dollars, unaudited)		**2015**		2014		**2015**		2014
Foreign exchange collars and forward contracts	**$**	**9.5**	$	2.5	**$**	**(12.4)**	$	(0.4)
Energy derivatives		**3.0**		0.4		**0.4**		0.6
Lumber futures		**0.2**		0.7		**(2.1)**		0.8
Pulp futures		**-**		(0.4)		**-**		(0.7)
Interest rate swaps		**-**		(0.1)		**(1.2)**		(0.7)
Gain (loss) on derivative financial instruments	**$**	**12.7**	$	3.1	**$**	**(15.3)**	$	(0.4)

7. Income Taxes

	3 months ended June 30,				6 months ended June 30,			
(millions of Canadian dollars, unaudited)		**2015**		2014		**2015**		2014
Current	**$**	**4.8**	$	(9.5)	**$**	**(16.5)**	$	(23.4)
Deferred		**(8.9)**		(11.2)		**(1.8)**		(18.5)
Income tax expense	**$**	**(4.1)**	$	(20.7)	**$**	**(18.3)**	$	(41.9)

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

	3 months ended June 30,				6 months ended June 30,			
(millions of Canadian dollars, unaudited)		**2015**		2014		**2015**		2014
Income tax expense at statutory rate 2015 – 26.0% (2014 – 26.0%)	**$**	**(7.3)**	$	(22.2)	**$**	**(23.2)**	$	(42.9)
Add (deduct):								
Entities with different income tax rates and other tax adjustments		**1.3**		1.3		**2.2**		0.9
Non-taxable income related to non-controlling interests		**1.1**		0.2		**2.1**		0.3
Permanent difference from capital gains and losses and other non-deductible items		**0.8**		-		**0.6**		(0.2)
Income tax expense	**$**	**(4.1)**	$	(20.7)	**$**	**(18.3)**	$	(41.9)

In addition to the amounts recorded to net income, a tax expense of $5.8 million was recorded to other comprehensive income for the three month period ended June 30, 2015 (three months ended June 30, 2014 - recovery of $9.3 million) in relation to the actuarial gains (losses) on defined benefit employee compensation plans. For the six months ended June 30, 2015, the tax expense was $4.7 million (six months ended June 30, 2014 - tax recovery of $17.8 million).

Also included in other comprehensive income for the three months ended June 30, 2015 was a tax recovery of $0.6 million related to foreign exchange differences on translation of investments in foreign operations. For the six months ended June 30, 2015, the tax expense was $1.9 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 shareholders by the weighted average number of common shares outstanding during the period.

	3 months ended June 30,		6 months ended June 30,	
	2015	2014	**2015**	2014
Weighted average number of common shares	**133,973,484**	138,609,515	**134,562,720**	139,252,154

On March 5, 2015, the Company renewed its normal course issuer bid whereby it can purchase for cancellation up to 6,767,993 common shares or approximately 5% of its issued and outstanding common shares as of February 28, 2015. The renewed normal course issuer bid is set to expire on March 4, 2016. During the second quarter of 2015, Canfor purchased 410,000 common shares for $9.9 million (an average of $24.15 per common share), which was paid in the quarter. In addition, $3.3 million was paid in the current quarter for share purchases relating to the previous quarter. Under a separate normal course issuer bid, CPPI purchased shares from non-controlling shareholders increasing Canfor's ownership from 50.5% at December 31, 2014 to 51.0% at June 30, 2015. As at July 21, 2015, there were 133,854,693 common shares of the Company outstanding.

9. Net Change in Non-Cash Working Capital

	3 months ended June 30,		6 months ended June 30,	
(millions of Canadian dollars, unaudited)	**2015**	2014	**2015**	2014
Accounts receivable	**$ (8.2)**	$ (19.6)	**$ (47.1)**	$ (33.4)
Inventories	**106.2**	164.5	**9.3**	(30.4)
Prepaid expenses and other assets	**(16.8)**	(13.7)	**(29.6)**	(15.9)
Accounts payable, accrued liabilities and current portion of deferred reforestation obligations	**5.1**	(38.4)	**52.5**	(5.3)
Net decrease (increase) in non-cash working capital	**$ 86.3**	$ 92.8	**$ (14.9)**	$ (85.0)

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 June 30, 2015							
Sales to external customers	**$**	**676.0**	**276.4**	**-**	**-**	**$**	**952.4**
Sales to other segments	**$**	**36.7**	**-**	**-**	**(36.7)**	**$**	**-**
Operating income (loss)	**$**	**5.1**	**20.9**	**(8.4)**	**-**	**$**	**17.6**
Amortization	**$**	**35.5**	**15.6**	**1.1**	**-**	**$**	**52.2**
Capital expenditures[1]	**$**	**34.3**	**12.7**	**2.4**	**-**	**$**	**49.4**
3 months ended June 30, 2014							
Sales to external customers	$	614.5	292.8	-	-	$	907.3
Sales to other segments	$	34.4	-	-	(34.4)	$	-
Operating income (loss)	$	74.1	30.9	(7.7)	-	$	97.3
Amortization	$	28.1	15.7	0.2	-	$	44.0
Capital expenditures[1]	$	39.1	20.2	3.7	-	$	63.0
6 months ended June 30, 2015							
Sales to external customers	**$**	**1,323.0**	**559.4**	**-**	**-**	**$**	**1,882.4**
Sales to other segments	**$**	**79.2**	**-**	**-**	**(79.2)**	**$**	**-**
Operating income (loss)	**$**	**53.4**	**63.9**	**(16.0)**	**-**	**$**	**101.3**
Amortization	**$**	**67.7**	**31.5**	**2.3**	**-**	**$**	**101.5**
Capital expenditures[1]	**$**	**65.1**	**26.2**	**3.9**	**-**	**$**	**95.2**
Identifiable assets	**$**	**2,042.9**	**784.7**	**231.1**	**-**	**$**	**3,058.7**
6 months ended June 30, 2014							
Sales to external customers	$	1,110.2	539.0	-	-	$	1,649.2
Sales to other segments	$	69.9	-	-	(69.9)	$	-
Operating income (loss)	$	130.5	67.4	(16.2)	-	$	181.7
Amortization	$	56.0	32.2	0.3	-	$	88.5
Capital expenditures[1]	$	78.7	30.3	7.1	-	$	116.1
Identifiable assets	$	1,770.1	789.9	172.9	-	$	2,732.9

[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 for the six months ended June 30, 2015 exclude the assets purchased as part of the acquisitions of Scotch Gulf, Beadles & Balfour, and Southern Lumber (Note 13 (a,b,c)).

11. Sale of Daaquam Operation

On March 28, 2014, the Company completed the sale of its Daaquam operation. Total gross proceeds related to the disposition of the Daaquam operation were $25.0 million. A pre-tax gain of $2.2 million was recorded in the first quarter of 2014 in Other Income.

12. Sale of Taylor Pulp Mill

On January 30, 2015, the Company completed the sale of its Bleached Chemi-Thermo Mechanical Pulp ("BCTMP") Taylor Pulp Mill to CPPI for cash consideration of $12.6 million including final working capital. The sale also includes a long-term fibre supply agreement under which Canfor will supply the Taylor Pulp Mill with fibre at prices that approximate fair market value. In addition to the cash consideration paid on the acquisition date, Canfor may receive additional consideration over a 3 year period, starting January 31, 2015, contingent on the Taylor Pulp Mill's annual adjusted operating income before amortization. On the acquisition date, the fair value of the contingent consideration was $1.8 million. At June 30, 2015, the contingent consideration had a fair value of nil reflecting a reduction in forecast BCTMP prices over the contingent consideration period.

13. US South Acquisitions

(a) Phased Purchase of Scotch Gulf

On August 9, 2013, Canfor completed the first phase of the phased purchase of Scotch Gulf representing an initial 25% interest. On August 1, 2014, Canfor completed the second phase of the acquisition for $9.9 million increasing its ownership to 33.3%. On January 30, 2015, Canfor completed the third phase of the acquisition for $23.3 million bringing Canfor's interest in Scotch Gulf to 50%. Upon obtaining a 50% interest in Scotch Gulf, Canfor obtained control for accounting purposes and the acquisition method of accounting was applied with an acquisition date of January 30, 2015. Canfor was deemed to have control of Scotch Gulf due to its 50% interest in the company, various debt arrangements between Canfor and Scotch Gulf and Canfor's commitment to purchase 100% of the company by August 2016. The acquisition has been accounted for in accordance with IFRS 3, *Business Combinations*.

The acquisition included three sawmills and a treating facility located in Mobile, Jackson and Fulton, Alabama with combined annual lumber production capacity of 440 million board feet following capital upgrades and additional shifts.

The following summarizes the consideration paid for Scotch Gulf and preliminary recognized amounts of assets acquired and liabilities assumed and the non-controlling interest at the acquisition date:

(millions of Canadian dollars, unaudited)		
Total consideration		
Cash	**$**	**23.3**
Fair value of equity interest in Scotch Gulf held immediately before the business combination		**46.6**
Total consideration	**$**	**69.9**

(millions of Canadian dollars, unaudited)		
Recognized amounts of identifiable assets acquired and liabilities assumed		
Cash	**$**	**1.0**
Land		**2.7**
Buildings, equipment and mobile		**64.5**
Non-cash working capital, net		**38.5**
Total net identifiable assets	**$**	**106.7**
Non-controlling interest		**(53.3)**
Goodwill		**5.5**
Deferred tax asset, net		**11.0**
Total consideration	**$**	**69.9**

The Company incurred acquisition-related costs of $1.4 million, principally relating to external legal fees and due diligence costs, which have been included in selling and administration costs. These amounts are recorded in the Company's consolidated statement of income for the six months ended June 30, 2015. Scotch Gulf's results are recorded in the lumber segment.

The goodwill of $5.5 million recognized as part of the purchase is calculated as the excess of the aggregate consideration transferred, the amount of non-controlling interests and the fair value of the previously held equity interest over the fair value of the identifiable assets acquired and liabilities assumed. The goodwill arising from the acquisition is attributable to management strength, expected future income and cash-flow projections, access to new markets in North America and the ability to diversify Canfor's product offering. Goodwill calculated for tax purposes is expected to be tax deductible over 15 years. As part of the consolidation of Scotch Gulf, a net deferred tax asset of $11.0 million was recognized for differences between tax and accounting values of the property, plant and equipment and goodwill acquired.

Canfor elected to calculate the non-controlling interest related to Scotch Gulf as 50% of the fair value of the net identifiable assets at the acquisition date. On the acquisition date, a forward purchase liability of $69.9 million was recognized related to the Company's commitment to purchase the remaining 50% of Scotch Gulf by August 2016 and was recorded as a long-term liability and reduction to other equity.

(b) Phased Purchase of Beadles & Balfour

On January 2, 2015, the Company completed the first phase of the acquisition of Beadles & Balfour for $51.6 million, plus transaction closing costs representing an initial 55% interest. The aggregate purchase price for Beadles & Balfour is US$68.0 million, plus the acquisition of certain capital assets and working capital. Canfor's initial 55% interest will increase to 100% after two years.

On completion of the first phase of the acquisition, Canfor was deemed to have control of Beadles & Balfour and the acquisition method of accounting was applied with an acquisition date of January 2, 2015. The acquisition has been accounted for in accordance with IFRS 3, *Business Combinations*.

The acquisition included two sawmills located in Thomasville and Moultrie, Georgia with annual production capacity of 210 million board feet following capital upgrades and additional shifts.

The following summarizes the consideration paid for Beadles & Balfour and preliminary recognized amounts of assets acquired and liabilities assumed and the non-controlling interest at the acquisition date:

(millions of Canadian dollars, unaudited)		
Total consideration		
Cash consideration paid	$	**50.8**
Consideration payable		**0.8**
Total consideration	$	**51.6**

(millions of Canadian dollars, unaudited)		
Land	$	**2.6**
Buildings, equipment and mobile		**34.1**
Non-cash working capital, net		**8.3**
Total net identifiable assets	$	**45.0**
Non-controlling interest		**(20.2)**
Goodwill		**17.7**
Deferred tax asset, net		**9.1**
Total consideration	$	**51.6**

The Company incurred acquisition-related costs of $0.5 million, principally relating to external legal fees and due diligence costs, which have been included in selling and administration costs. These amounts were recorded in the Company's consolidated statement of income in 2014 when incurred. Beadles & Balfour's results are recorded in the lumber segment.

The goodwill of $17.7 million recognized as part of the purchase is calculated as the excess of the aggregate consideration transferred and the amount of non-controlling interests over the fair value of the identifiable assets acquired and liabilities assumed. The goodwill arising from the acquisition is attributable to expected synergies with other Canfor-owned mills located in close proximity, management strength, expected future income and cash-flow projections, access to new markets and ability to diversify Canfor's product offering. Goodwill calculated for tax purposes is expected to be tax deductible over 15 years. As part of the consolidation of Beadles & Balfour, a net deferred tax asset of $9.1 million was recognized for differences between tax and accounting values of the property, plant and equipment and goodwill acquired.

Canfor elected to calculate the non-controlling interest related to Beadles & Balfour as 45% of the fair value of the net identifiable assets at the acquisition date. On the acquisition date, a forward purchase liability of $36.5 million was recognized related to the Company's commitment to purchase the remaining 45% of Beadles & Balfour within two years and was recorded as a long-term liability and reduction to other equity.

(c) Purchase of Southern Lumber

On April 1, 2015, the Company completed the acquisition of Southern Lumber's Mississippi operating assets for cash consideration of $65.6 million. As a result of the acquisition, Canfor recognized approximately $4.2 million of working capital, $14.1 million of long-term assets acquired and $47.3 million of goodwill. The acquisition has been accounted for in accordance with IFRS 3, *Business Combinations*.

The acquisition included a sawmill located in Hermanville, Mississippi with annual production capacity of 90 million board feet following capital upgrades and additional shifts.

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

(millions of Canadian dollars, unaudited)		
Total consideration		
Cash consideration paid	**$**	**65.6**
Total consideration	**$**	**65.6**

(millions of Canadian dollars, unaudited)		
Land	**$**	**0.5**
Buildings, equipment and mobile		**13.6**
Non-cash working capital, net		**4.2**
Total net identifiable assets	**$**	**18.3**
Goodwill		**47.3**
Total consideration	**$**	**65.6**

The Company incurred acquisition-related costs of $0.3 million, principally relating to external legal fees and due diligence costs, which have been included in selling and administration costs. These amounts were recorded in the Company's consolidated statement of income in 2014 and 2015. Southern Lumber's results are recorded in the lumber segment.

The goodwill of $47.3 million recognized as part of the purchase is calculated as the excess of the aggregate consideration over the fair value of the identifiable assets acquired and liabilities assumed. The goodwill arising from the acquisition is attributable to the premium products produced, management strength, expected future income and cash-flow projections, access to new markets in North America and the ability to diversify Canfor's product offering. Goodwill calculated for tax purposes is expected to be tax deductible over 15 years.

14. Subsequent Events

Subsequent to quarter end, on July 1, 2015, the Company sold its 33.3% investment in Lakeland Mills Ltd. and Winton Global Lumber Ltd. to Robert Stewart Holdings Ltd. for cash consideration of $30.0 million. The proceeds will be paid in two equal installments of $15.0 million with the first installment received on July 1, 2015 and the second installment scheduled to be received on July 1, 2017. Canfor accounts for its investment in Lakeland Mills Ltd. and Winton Global Lumber Ltd. as a financial instrument measured at fair value. At June 30, 2015, the investment was recorded at fair value of $30.0 million with a current portion of $15.0 million recorded as Other Accounts Receivable and a long-term portion of $15.0 million recorded as Long-Term Investments and Other. A pre-tax gain of $7.0 million was recognized in Other Income in the second quarter of 2015.

Also subsequent to quarter end, on July 21, 2015, the CPPI Board of Directors declared a quarterly dividend of $0.0625 per share and a special dividend of $1.1250 per share, both payable on August 10, 2015, to the CPPI shareholders of record on August 3, 2015. As at July 21, 2015, Canfor owns 51.0% of CPPI.