

# 2015

CANFOR CORPORATION  
QUARTER THREE  
MANAGEMENT'S  
DISCUSSION & ANALYSIS



CANFOR

**Canfor Corporation**  
**Third Quarter 2015**  
**Management's Discussion and Analysis**

*This interim Management's Discussion and Analysis ("MD&A") provides a review of Canfor Corporation's ("Canfor" or "the Company") financial performance for the quarter ended September 30, 2015 relative to the quarters ended June 30, 2015 and September 30, 2014, and the financial position of the Company at September 30, 2015. It should be read in conjunction with Canfor's unaudited interim consolidated financial statements and accompanying notes for the quarters ended September 30, 2015 and 2014, as well as the 2014 annual MD&A and the 2014 audited consolidated financial statements and notes thereto, which are included in Canfor's Annual Report for the year ended December 31, 2014 (available at [www.canfor.com](http://www.canfor.com)). The financial information in this interim 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 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 "Analysis of Specific Material Items Affecting Comparability of Shareholder Net Income (Loss)") 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 Shareholder Net Income (Loss) and Adjusted Shareholder Net Income (Loss) per Share are not generally accepted earnings measures and should not be considered as an alternative to net income or cash flows as determined in accordance with IFRS. As there is no standardized method of calculating these measures, Canfor's Operating Income (Loss) before Amortization, 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. Throughout this discussion reference is made to the current quarter which refers to the results for the third quarter of 2015.*

*Factors that could impact future operations are also discussed. These factors may be influenced by both 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. The information in this report is as at October 28, 2015.*

**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.*

### THIRD QUARTER 2015 OVERVIEW

#### Selected Financial Information and Statistics

(millions of Canadian dollars, except per share amounts)	Q3 2015	Q2 2015	YTD 2015	Q3 2014	YTD 2014
Operating income (loss) by segment:					
Lumber	\$ (26.9)	\$ 5.1	\$ 26.5	\$ 59.6	\$ 190.1
Pulp and Paper	\$ 42.3	\$ 20.9	\$ 106.2	\$ 33.1	\$ 100.5
Unallocated and Other	\$ (6.9)	\$ (8.4)	\$ (22.9)	\$ (7.1)	\$ (23.3)
<b>Total operating income</b>	<b>\$ 8.5</b>	<b>\$ 17.6</b>	<b>\$ 109.8</b>	<b>\$ 85.6</b>	<b>\$ 267.3</b>
Add: Amortization	\$ 52.6	\$ 52.2	\$ 154.1	\$ 47.1	\$ 135.6
<b>Total operating income before amortization<sup>1</sup></b>	<b>\$ 61.1</b>	<b>\$ 69.8</b>	<b>\$ 263.9</b>	<b>\$ 132.7</b>	<b>\$ 402.9</b>
Add (deduct):					
Working capital movements	\$ 7.1	\$ 86.3	\$ (7.8)	\$ (0.2)	\$ (85.2)
Defined benefit plan withdrawals (contributions), net	\$ 2.7	\$ (5.5)	\$ 0.2	\$ (6.4)	\$ (25.8)
Income taxes paid, net	\$ (25.1)	\$ (12.1)	\$ (59.2)	\$ (15.1)	\$ (36.4)
Other operating cash flows, net <sup>2</sup>	\$ 16.2	\$ (12.5)	\$ 32.7	\$ 8.5	\$ 20.2
<b>Cash from operating activities</b>	<b>\$ 62.0</b>	<b>\$ 126.0</b>	<b>\$ 229.8</b>	<b>\$ 119.5</b>	<b>\$ 275.7</b>
Add (deduct):					
Finance expenses paid	\$ (3.8)	\$ (3.0)	\$ (9.4)	\$ (3.3)	\$ (8.7)
Repayment of long-term debt, net	\$ (50.0)	\$ -	\$ (50.0)	\$ -	\$ -
Distributions paid to non-controlling interests	\$ (43.1)	\$ (6.7)	\$ (52.8)	\$ (2.7)	\$ (7.7)
Share purchases	\$ -	\$ (13.2)	\$ (39.2)	\$ (1.2)	\$ (108.9)
Capital additions, net	\$ (61.1)	\$ (49.4)	\$ (156.3)	\$ (63.5)	\$ (179.6)
Timber investment loan	\$ (30.0)	\$ -	\$ (30.0)	\$ -	\$ -
Proceeds received from sale of Lakeland Winton	\$ 15.0	\$ -	\$ 15.0	\$ -	\$ -
Acquisitions	\$ -	\$ (66.4)	\$ (139.5)	\$ (9.9)	\$ (9.9)
Change in restricted cash <sup>3</sup>	\$ -	\$ -	\$ 50.2	\$ -	\$ -
Proceeds from the sale of Daaquam Sawmill	\$ -	\$ -	\$ -	\$ 0.7	\$ 23.6
Repayment from Scotch & Gulf Lumber, LLC	\$ -	\$ -	\$ 4.1	\$ 2.7	\$ 7.4
Other, net	\$ (5.2)	\$ (16.6)	\$ (26.5)	\$ (5.6)	\$ (4.8)
<b>Change in cash / operating loans</b>	<b>\$ (116.2)</b>	<b>\$ (29.3)</b>	<b>\$ (204.6)</b>	<b>\$ 36.7</b>	<b>\$ (12.9)</b>
ROIC – Consolidated period-to-date <sup>4</sup>	<b>(0.9%)</b>	0.1%	<b>1.9%</b>	3.5%	10.7%
<b>Average exchange rate (US\$ per C\$1.00)<sup>5</sup></b>	<b>\$ 0.764</b>	\$ 0.813	<b>\$ 0.794</b>	\$ 0.918	\$ 0.914

<sup>1</sup> Amortization includes amortization of certain capitalized major maintenance costs.

<sup>2</sup> Further information on operating cash flows can be found in the Company's unaudited interim consolidated financial statements.

<sup>3</sup> Change in restricted cash relates to amounts transferred into an escrow bank account for the first phase of the Beadles & Balfour acquisition which closed on January 2, 2015.

<sup>4</sup> 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 period. Invested capital is equal to capital assets, plus long-term investments and net non-cash working capital, all excluding minority interest components.

<sup>5</sup> Source – Bank of Canada (average noon rate for the period).

### Analysis of Specific Material Items Affecting Comparability of Shareholder Net Income (loss)

After-tax impact, net of non-controlling interests (millions of Canadian dollars, except per share amounts)	Q3 2015	Q2 2015	YTD 2015	Q3 2014	YTD 2014
<b>Shareholder net income (loss), as reported</b>	\$ (17.3)	\$ 11.1	\$ 23.1	\$ 45.5	\$ 145.3
(Gain) loss on derivative financial instruments	\$ 9.3	\$ (7.7)	\$ 18.8	\$ 0.7	\$ 0.7
Mill closure provision <sup>6</sup>	\$ 14.4	\$ -	\$ 14.4	\$ -	\$ -
Mark-to-market gain on investment in Lakeland Mills Ltd. and Winton Global Lumber Ltd. <sup>7</sup>	\$ -	\$ (6.1)	\$ (6.1)	\$ -	\$ -
Mark-to-market loss on Taylor Pulp contingent consideration, net <sup>8</sup>	\$ -	\$ 0.7	\$ 0.7	\$ -	\$ -
Mark-to-market adjustment to Canfor-LP OSB sale contingent consideration <sup>9</sup>	\$ -	\$ -	\$ -	\$ 4.5	\$ 9.4
Gain on sale of Daaquam Sawmill	\$ -	\$ -	\$ -	\$ -	\$ (1.6)
Net impact of above items	\$ 23.7	\$ (13.1)	\$ 27.8	\$ 5.2	\$ 8.5
<b>Adjusted shareholder net income (loss)</b>	\$ 6.4	\$ (2.0)	\$ 50.9	\$ 50.7	\$ 153.8
<b>Shareholder net income (loss) per share (EPS), as reported</b>	\$ (0.13)	\$ 0.08	\$ 0.17	\$ 0.34	\$ 1.05
Net impact of above items per share <sup>10</sup>	\$ 0.18	\$ (0.10)	\$ 0.21	\$ 0.04	\$ 0.06
<b>Adjusted shareholder net income (loss) per share<sup>10</sup></b>	\$ 0.05	\$ (0.02)	\$ 0.38	\$ 0.38	\$ 1.11

<sup>6</sup> During the third quarter of 2015, the Company recorded one-time costs of \$19.4 million (before tax) associated with the announced closure of the Canal Flats sawmill.

<sup>7</sup> On July 1, 2015, Canfor sold its 33.3% interest in Lakeland Mills Ltd. and Winton Global Lumber Ltd. for \$30.0 million. In the second quarter of 2015, Canfor's investment was recorded at fair value and \$7.0 million mark-to-market gain (before-tax) was recognized.

<sup>8</sup> As part of the sale of the BCTMP Taylor pulp mill to CPPI on January 30, 2015, Canfor could receive contingent consideration based on the Taylor pulp mill's future earnings over a three year period. On the acquisition date, the contingent consideration was valued at \$1.8 million (before-tax) and Canfor recorded an asset and CPPI recorded an offsetting liability for this amount. During the second quarter of 2015, the contingent consideration asset and liability were revalued to nil. The adjustment above reflects the impact to Canfor EPS net of non-controlling interest.

<sup>9</sup> The Company completed the sale of its 50% share of the Canfor-LP OSB Limited Partnership ("Canfor-LP OSB") in the second quarter of 2013. As part of the sale, Canfor may receive additional annual consideration over a 3 year period, starting June 1, 2013, based on Peace Valley OSB's annual adjusted earnings before interest, tax, depreciation and amortization. The estimated fair value of the contingent consideration at September 30, 2015 is nil.

<sup>10</sup> The year-to-date net impact of the adjusting items per share and adjusted shareholder net income per share may not equal the sum of the quarterly per share amounts due to rounding and the weighted average common shares outstanding during the applicable period.

The Company reported operating income of \$8.5 million for the third quarter of 2015, down \$9.1 million from \$17.6 million reported for the second quarter of 2015. Results for the third quarter included one-time costs of \$19.4 million (before tax) associated with the announced closure of the Canal Flats sawmill. Excluding the impact of the Canal Flats sawmill closure, higher earnings in the third quarter of 2015 reflected improved pulp and paper segment results driven by fewer maintenance outages, improved productivity and a modest increase in Northern Bleached Softwood Kraft ("NBSK") pulp sales realizations which more than offset challenging market conditions in the lumber segment.

In September 2015, key benchmark lumber prices fell to levels not seen since early 2012 as a combination of weak demand in China and oversupply in North America pushed lumber prices lower. Low grade lumber products, in particular, which are principally sold to China saw more pronounced declines. Lumber demand in North America remained relatively stable as total US housing starts in the current quarter averaged 1,163,000 units SAAR (seasonally adjusted annual rate), in line with the previous quarter, while housing starts in Canada averaged 209,000 units SAAR, up 9% from the previous quarter.

The average benchmark North American Random Lengths Western Spruce/Pine/Fir ("SPF") 2x4 #2&Btr price was US\$269 per Mfbm in the third quarter of 2015, in line with the second quarter of 2015 while the benchmark Southern Yellow Pine ("SYP") East 2x4 #2 price was down US\$52 per Mfbm, or 14%, to US\$331 per Mfbm. Western SPF lumber sales realizations were broadly in line with the second quarter as the benefit of a 6% weaker Canadian dollar outweighed declines in low grade lumber prices and higher export taxes in the third quarter of 2015. SYP sales realizations were moderately lower in the third quarter of 2015, as the impact of lower US-dollar benchmark prices for narrower width dimensions was partly offset by a combination of less pronounced price decreases in most wider dimension grades and the high-value product mix produced at the recently acquired US South operations.

Lumber shipments at over 1.3 billion board feet were down 2% from the previous quarter principally reflecting slightly lower lumber production as productivity improvements were more than offset by an additional statutory

holiday in Canada and shift configuration changes at certain Western SPF operations in the third quarter of 2015. Overall lumber unit manufacturing costs were down slightly compared to the previous quarter partly due to improved productivity and seasonally lower energy costs in the third quarter of 2015.

Global softwood pulp markets weakened slightly through the third quarter of 2015, reflecting a seasonal slowdown in shipments and minimal industry downtime through the summer months. The average NBSK pulp list price to North America, as published by RISI, was down US\$13 per tonne, or 1%, to US\$967 per tonne with a more pronounced decrease in NBSK list prices to China. However, overall NBSK unit sales realizations were modestly higher compared to the previous quarter as the benefit of a 6% weaker Canadian dollar outweighed lower NBSK US-dollar list prices in the current quarter. Bleached Chemi-Thermo Mechanical Pulp ("BCTMP") markets and prices continued to be challenging in the current quarter, with pulp unit sales realizations remaining under pressure through the period.

Pulp shipments and production levels were both up approximately 5% from the previous quarter reflecting improved operating rates at the Company's NBSK operations and fewer maintenance outages in the current quarter. In the latter part of September, the Northwood NBSK pulp mill entered its scheduled maintenance outage reducing NBSK production by approximately 6,000 tonnes in the current quarter. The Northwood pulp mill completed its maintenance outage on schedule in early October and is now operating at target levels. In the comparative second quarter of 2015, scheduled maintenance outages were completed at the Intercontinental and Prince George NBSK pulp mills and the Taylor BCTMP pulp mill, reducing production by 14,000 tonnes. Pulp unit manufacturing costs saw a modest decrease from the second quarter of 2015 largely reflecting the increased productivity and production, as well as lower energy and chemical costs, in the current quarter. The Company continues to see the benefits from its recent investment in energy based projects including the recently completed Intercontinental pulp mill turbine that was commissioned in April 2015.

During the third quarter, the Company announced the acquisition of Anthony Forest Products ("AFP") based in El Dorado, Arkansas. AFP owns one sawmill, which produces premium SYP lumber located in Arkansas, two laminating facilities which produce beams and glulam products located in Arkansas and Georgia and two chip mills located in Louisiana and Texas. In addition, AFP owns a 50% joint venture with EACOM Timber Corporation located in Sault Ste. Marie, Ontario that manufactures I-joists. The acquisition of AFP is anticipated to close in the fourth quarter of 2015. In conjunction with the acquisition, Canfor completed a US\$100.0 million financing at an interest rate of 4.40% with an average maturity in 2024.

Compared to the third quarter of 2014, operating income was down \$77.1 million reflecting an \$86.5 million decrease in earnings in the lumber segment and a \$9.2 million increase in earnings for the pulp and paper segment. Excluding the costs associated with the announced closure of the Canal Flats sawmill and lumber inventory valuation adjustments in the third quarter of 2015, the decline in lumber segment operating income of \$60.9 million was principally attributable to lower lumber sales realizations as lower US-dollar benchmark lumber prices, export taxes on lumber shipments from Canada to the US and higher Western SPF log costs outweighed the benefit of a 17% weaker Canadian dollar in the current quarter. Total lumber production and shipments were well up from the same quarter in 2014 as a result of the Company's recent US South acquisitions and productivity improvements, which more than offset changes in shift configurations at certain Western SPF operations in the current quarter. Improved pulp segment results reflected increased NBSK productivity and modestly higher NBSK sales realizations as the benefit of the 17% weaker Canadian dollar outweighed lower NBSK US-dollar list prices to all regions in the third quarter of 2015.

## OPERATING RESULTS BY BUSINESS SEGMENT

### Lumber

#### Selected Financial Information and Statistics – Lumber

(millions of Canadian dollars, unless otherwise noted)	Q3 2015	Q2 2015	YTD 2015	Q3 2014	YTD 2014
Sales	\$ 695.3	\$ 676.0	\$ 2,018.3	\$ 570.5	\$ 1,680.7
Operating income before amortization	\$ 8.4	\$ 40.6	\$ 129.5	\$ 88.7	\$ 275.2
Operating income (loss)	\$ (26.9)	\$ 5.1	\$ 26.5	\$ 59.6	\$ 190.1
Inventory valuation adjustments	\$ 6.2	\$ -	\$ 6.2	\$ -	\$ -
Mill closure provisions	\$ 19.4	\$ -	\$ 19.4	\$ -	\$ -
Operating income (loss) excluding inventory valuation adjustments and one-time items	\$ (1.3)	\$ 5.1	\$ 52.1	\$ 59.6	\$ 190.1
Average SPF 2x4 #2&Btr lumber price in US\$ <sup>11</sup>	\$ 269	\$ 270	\$ 282	\$ 357	\$ 353
Average SPF price in Cdn\$ <sup>11</sup>	\$ 352	\$ 332	\$ 355	\$ 389	\$ 386
Average SYP 2x4 #2 lumber price in US\$ <sup>12</sup>	\$ 331	\$ 383	\$ 376	\$ 438	\$ 415
Average SYP price in Cdn\$ <sup>12</sup>	\$ 433	\$ 471	\$ 474	\$ 477	\$ 454
U.S. housing starts (thousand units SAAR) <sup>13</sup>	1,163	1,158	1,100	1,029	982
Production – SPF lumber (MMfbm) <sup>14</sup>	926.6	961.0	2,853.6	926.3	2,842.2
Production – SYP lumber (MMfbm) <sup>14, 15</sup>	301.8	304.9	841.2	150.4	439.4
Shipments – SPF lumber (MMfbm) <sup>16</sup>	1,014.3	1,046.1	2,991.0	956.2	2,798.2
Shipments – SYP lumber (MMfbm) <sup>15, 16</sup>	322.7	315.6	874.7	162.2	473.8
Shipments – wholesale lumber (MMfbm)	6.0	4.8	16.2	6.0	16.1

<sup>11</sup> Western Spruce/Pine/Fir, per thousand board feet (Source – Random Lengths Publications, Inc.); Average price in Cdn\$ calculated as average Western Spruce/Pine/Fir price in US\$ multiplied by the average exchange rate – C\$ per US\$1.00 according to Bank of Canada average noon rate for the period.

<sup>12</sup> Southern Yellow Pine, Eastside, per thousand board feet (Source – Random Lengths Publications, Inc.); Average price in Cdn\$ calculated as average Southern Yellow Pine, Eastside price in US\$ multiplied by the average exchange rate – C\$ per US\$1.00 according to Bank of Canada average noon rate for the period.

<sup>13</sup> Source – U.S. Census Bureau, seasonally adjusted annual rate (“SAAR”).

<sup>14</sup> Excluding production of trim blocks. Production in prior periods has been restated from sawmill production to finished lumber production.

<sup>15</sup> Effective January 2, 2015, January 30, 2015 and April 1, 2015, SYP lumber production and shipment volumes include volume from Beadles & Balfour, Scotch Gulf and Southern Lumber, respectively.

<sup>16</sup> Canfor-produced lumber, including lumber purchased for remanufacture and excluding trim blocks.

#### Overview

Operating loss for the lumber segment for the third quarter of 2015 was \$26.9 million, a decrease of \$32.0 million compared to operating income of \$5.1 million in the previous quarter, and down \$86.5 million compared to operating income of \$59.6 million in the same quarter of 2014. Excluding inventory valuation adjustments and one-time costs associated with the announced closure of the Canal Flats sawmill, the lumber segment’s operating loss was \$1.3 million for the third quarter of 2015, down \$6.4 million from the second quarter of 2015 and down \$60.9 million from the same quarter in 2014.

The decrease in adjusted operating income for the lumber segment compared to the immediately preceding quarter principally reflected lower SYP lumber sales realizations partially offset by slightly lower unit manufacturing costs at the Company’s Western SPF operations. Western SPF lumber sales realizations were broadly in line with the second quarter of 2015 as the benefit of a 6% weaker Canadian dollar was largely offset by higher export taxes on Canadian shipments to the US and sharp declines in the price of low grade products largely destined for offshore markets. Total lumber production was down 3% as the positive impact of productivity gains in the current quarter were negated by one additional statutory holiday in Canada and fewer shifts at certain Western SPF operations.

Compared to the third quarter of 2014, the decline in operating income in the current quarter principally reflected lower lumber sales realizations as lower US-dollar benchmark lumber prices and the resulting export taxes outweighed the benefit of a 17% weaker Canadian dollar. Total lumber shipments and production were well up from the same quarter in 2014 due to the Company’s recent US South acquisitions and productivity improvements, which were offset by changes in shift configurations at certain Western SPF operations in the current quarter.

## Markets

In September 2015, US-dollar benchmark lumber prices fell to levels not seen since early 2012 as weak demand in China and oversupply in North America combined to push lumber prices lower. In China, the recent slowdown in construction activity and increased Russian supply as a result of the devaluation of the Russian Ruble led to sharp declines in prices for low grade lumber products. In North America, lumber demand remained relatively stable in the third quarter of 2015, reflecting steadily improving new home construction and repair and remodeling activity; total US housing starts averaged 1,163,000 units<sup>17</sup> SAAR (seasonally adjusted annual rate) for the third quarter of 2015, in line with the second quarter of 2015 and up 13% from the same period in 2014. Single-family starts, which consume a higher proportion of lumber, were moderately higher, up 6% compared to the second quarter of 2015, to 746,000 units<sup>17</sup> SAAR. However, a combination of the weaker Canadian dollar and increased North American lumber production, with proportionately higher volumes directed to the US market, resulted in Western SPF and SYP lumber prices coming under increasing pressure as the quarter progressed.

In Canada, housing starts averaged 209,000 units<sup>18</sup> SAAR, up 9% from the previous quarter and up 7% from the same period in 2014.

## Sales

Sales for the lumber segment for the third quarter of 2015 were \$695.3 million, compared to \$676.0 million in the previous quarter and \$570.5 million for the third quarter of 2014. The 3% increase in lumber sales revenue compared to the second quarter of 2015 primarily reflected seasonally higher log sales as well as higher SYP lumber shipments and the weaker Canadian dollar, which more than offset declines in SYP US-dollar benchmark prices during the third quarter of 2015. Compared to the third quarter of 2014, the increase of \$124.8 million, or 22%, in sales revenue was principally due to higher SYP lumber shipments related to the Company's recent acquisitions in the US South and the benefit of a 17% weaker Canadian dollar, which more than offset lower lumber prices relative to the same quarter in 2014.

Total lumber shipments in the third quarter of 2015, at over 1.3 billion board feet, were down 2% from the previous quarter, largely due to the 3% lower total lumber production in the current quarter. Third quarter lumber shipments reflected a higher proportion of volumes sold to North America, mostly due to excess supply of low grade lumber in China. Compared to the third quarter of 2014, lumber shipments were up 19% reflecting the Company's recent growth in the US South as well as a larger reduction in Western SPF inventory levels in the current quarter.

Western SPF lumber sales realizations were broadly in line with the previous quarter, as the benefit of a 6% weaker Canadian dollar were largely offset by declines in low grade lumber prices and higher average export taxes in the current quarter. The average benchmark North American Random Lengths Western SPF 2x4 #2&Btr price at US\$269 per Mfbm was in line with second quarter of 2015 while prices for low grade products principally destined for offshore markets were significantly lower in the current quarter pushing offshore realizations downward. During the third quarter of 2015, the Company paid export taxes on lumber shipments from Canada to the US of 15% in July, 5% in August and 5% in September for a quarterly export tax expense of \$14.3 million in the quarter up \$3.8 million from the second quarter of 2015.

SYP sales realizations in the third quarter of 2015 were moderately lower compared to the previous quarter with the average Random Lengths SYP East 2x4 #2 price down US\$52 per Mfbm to US\$331 per Mfbm. Overall SYP sales realizations reflected less pronounced price decreases in most wide dimension products and the higher-value product mix produced at the recently acquired US South operations.

Compared to the third quarter of 2014, Western SPF lumber sales realizations were significantly lower principally reflecting lower benchmark lumber prices and higher export taxes on shipments to the US offset in part by the favourable impact of the 15 cents, or 17%, weaker Canadian dollar. The average North American Random Lengths Western SPF 2x4 #2&Btr price was down US\$88/Mfbm, or 25%, to US\$269 per Mfbm in the third quarter of 2015. North American lumber sales realizations were further impacted by export tax expenses of \$14.3 million in the current quarter compared to no export tax on shipments from Canada to the US in the third quarter of 2014. Offshore lumber sales realizations were also lower in the current quarter with sharp price declines across all grades, particularly low grade products, partly offset by the weaker Canadian dollar. While the average Random Lengths benchmark SYP East 2x4 #2 price was down US\$107 per Mfbm, or 24%, compared to the third quarter of 2014, SYP sales realizations showed only a modest decline, as a result of the higher-value sales mix produced at the recently acquired US South operations as well as less pronounced price decreases in wide dimension products.

<sup>17</sup> U.S. Census Bureau

<sup>18</sup> CMHC – Canada Mortgage and Housing Corporation

Residual fibre revenue in the current quarter was higher compared to both comparable periods largely due to additional chip sales volume from the recently acquired US South operations. Log sales were also higher compared to both comparable periods reflecting increased timber harvesting in Western Canada following spring break-up in the second quarter of 2015 and incremental log sales from the recently acquired US South operations.

### Operations

Lumber production at over 1.2 billion board feet, was down 3% from the previous quarter as productivity improvements were more than offset by an additional statutory holiday in Canada and fewer shifts at certain Western SPF operations in the third quarter of 2015. SYP lumber production in the third quarter of 2015 was broadly in line with the previous quarter. Compared to the third quarter of 2014, total lumber production was up 14% reflecting the incremental production from the acquisitions of Scotch Gulf, Beadles & Balfour and Southern Lumber. Excluding lumber production from the recently acquired US South operations, lumber production was slightly higher reflecting improved productivity following several capital upgrades offset by certain changes in operating shift configurations since the same quarter in the prior year.

Overall, unit manufacturing costs in both Western Canada and the US South were slightly lower than the previous quarter. Lower unit manufacturing costs reflected the impact of improved productivity and lower energy costs due to lower diesel prices and seasonally lower energy usage. During the third quarter of 2015, an inventory valuation adjustment of \$6.2 million was recorded against Western SPF lumber inventory principally reflecting lower offshore prices and 15% export tax in the first twelve days of October prior to expiry of the Softwood Lumber Agreement (see further discussion on the Softwood Lumber Agreement expiry in the "Risks and Uncertainties" section).

During the third quarter of 2015, the Company announced the permanent closure of the Canal Flats sawmill due to the lack of economic fibre in the region and depressed market conditions in the markets that the sawmill serves. As a result of the announcement, the Company recorded \$19.4 million in related closure costs, including the impairment of certain buildings and equipment. The Canal Flats sawmill is anticipated to cease operations partway through November 2015.

Unit manufacturing costs in the current quarter of 2015 were in line with those in the third quarter of 2014 with the positive impact of productivity gains and lower energy costs offsetting higher log contractor costs and longer hauling distances in Western Canada.

### **Pulp and Paper**

#### **Selected Financial Information and Statistics – Pulp and Paper**<sup>19</sup>

(millions of Canadian dollars, unless otherwise noted)	<b>Q3</b>	<b>Q2</b>	<b>YTD</b>	<b>Q3</b>	<b>YTD</b>
	<b>2015</b>	<b>2015</b>	<b>2015</b>	<b>2014</b>	<b>2014</b>
Sales	\$ 294.6	\$ 276.4	\$ 854.0	\$ 267.5	\$ 806.5
Operating income before amortization <sup>20</sup>	\$ 58.6	\$ 36.5	\$ 154.0	\$ 49.9	\$ 149.5
Operating income	\$ 42.3	\$ 20.9	\$ 106.2	\$ 33.1	\$ 100.5
Average pulp price delivered to U.S. – US\$ <sup>21</sup>	\$ 967	\$ 980	\$ 981	\$ 1,030	\$ 1,026
Average price in Cdn\$ <sup>21</sup>	\$ 1,266	\$ 1,205	\$ 1,236	\$ 1,122	\$ 1,123
Production – pulp (000 mt)	310.5	294.6	913.3	305.3	904.4
Production – paper (000 mt)	34.6	31.0	101.0	35.9	108.0
Shipments – pulp (000 mt)	307.4	291.9	886.7	291.0	861.4
Shipments – paper (000 mt)	32.1	33.8	98.0	35.7	106.7

<sup>19</sup> Includes the Taylor pulp mill and 100% of Canfor Pulp Products Inc., which are consolidated in Canfor's results. The Taylor pulp mill was sold to Canfor Pulp Products Inc. on January 30, 2015. Pulp production and shipment volumes presented are for both NBSK and BCTMP.

<sup>20</sup> Amortization includes amortization of certain capitalized major maintenance costs.

<sup>21</sup> Per tonne, NBSK pulp list price delivered to U.S. (as published by RISI); Average price in Cdn\$ calculated as average pulp price delivered to US – US\$ multiplied by the average exchange rate – C\$ per US\$1.00 according to Bank of Canada average noon rate for the period.

### Overview

Operating income for the pulp and paper segment was \$42.3 million for the third quarter of 2015, up \$21.4 million from the previous quarter and \$9.2 million from the third quarter of 2014.

Improved pulp and paper segment results compared to the second quarter of 2015 reflected fewer maintenance outages and improved productivity as well as a modest increase in NBSK pulp sales realizations in the third quarter of 2015. The Northwood NBSK pulp mill entered its scheduled maintenance outage in the latter part of September while in the previous quarter, scheduled maintenance outages were taken at the Intercontinental and Prince George

NBSK pulp mills, and the Taylor BCTMP pulp mill. Operating results in the third quarter of 2015 also benefited from a modest decrease in pulp unit manufacturing costs as well as higher energy revenues. Operating income at the Company's paper operation was also higher reflecting marginally higher unit sales realizations in the current quarter which benefitted from the continued weakening in the Canadian dollar and the impact of a scheduled maintenance outage at the Company's paper machine in the second quarter. The Company continues to see the benefits from its recent investment in energy based projects including the recently completed Intercontinental pulp mill turbine that was commissioned in April 2015.

Compared to the third quarter of 2014, the improvement in the current quarter's pulp segment results reflected increased NBSK productivity coupled with modestly higher NBSK sales realizations as the benefits of a 17% weaker Canadian dollar more than offset lower NBSK US-dollar list prices to all regions. Total pulp unit manufacturing costs were broadly in line with the same quarter in 2014, as improved NBSK productivity and lower energy costs offset higher NBSK fibre costs and higher maintenance costs related to the Northwood outage in the current quarter. Higher energy revenues compared to the same quarter in 2014 reflected the incremental contribution from the Intercontinental turbine generator which was completed in the second quarter of 2015. Results at the Company's paper operation benefitted from significantly higher unit sales realizations, which more than offset higher unit manufacturing costs largely the result of increased market-driven slush pulp costs.

#### Markets

Global softwood pulp markets weakened slightly through the third quarter of 2015, reflecting a seasonal slowdown in shipments through the summer months. Global softwood pulp producer inventory levels increased 1 day from the end of June 2015 to 30 days' supply in September 2015<sup>22</sup>, partly reflecting the aforementioned seasonality in shipments and minimal industry maintenance downtime (market conditions are generally considered balanced when inventories are in the 27-30 days of supply range).

Global shipments of bleached softwood kraft pulp decreased slightly compared to the previous quarter and were broadly in line with the same period in 2014<sup>23</sup>. The decrease in softwood pulp shipments compared to the previous quarter primarily reflected lower shipments to China.

#### Sales

The Company's pulp shipments in the third quarter of 2015 totalled 307,400 tonnes, an increase of 15,500 tonnes, or 5%, from the previous quarter and included increased NBSK shipments to both Asia and North America, which more than offset lower shipments to Europe. Compared to the third quarter of 2014, pulp shipments were up 16,400 tonnes, or 6%. Paper shipments in the third quarter of 2015 were 32,100 tonnes, down 1,700 tonnes, or 5%, reflecting lower shipments to Latin America and, to a lesser extent, Europe in the current quarter as well as a reduction in paper inventory levels in the second quarter of 2015. Compared to the third quarter of 2014, paper shipments were down 3,600 tonnes, or 10%, reflecting lower offshore shipments in the current quarter. Prime bleached paper shipments, which attract higher prices, were down 3% from the second quarter of 2015 and down 6% from the same quarter in 2014.

The average North American US-dollar NBSK pulp list price, as published by RISI, was down US\$13 per tonne, or 1%, compared to the average for the second quarter of 2015 with a similar decrease seen in the average European NBSK price and a US\$37 per tonne, or 5%, decrease in the average China NBSK price. Average NBSK pulp unit sales realizations were up in the third quarter as the benefit of a 5 cent, or 6%, weaker Canadian dollar outweighed the slightly lower list prices in the third quarter of 2015. Discount levels from NBSK list prices were consistent with the previous quarter. Marginally lower BCTMP unit sales realizations continued to reflect challenging BCTMP markets; prices trended lower in the current quarter but were mitigated somewhat by the impact of the weaker Canadian dollar. The Company's paper operation's current quarter unit sales realizations saw a marginal improvement from the second quarter of 2015 as the benefits of a 6% weaker Canadian dollar more than offset lower paper prices and prime bleached shipments during the quarter.

<sup>22</sup> World 20 data is based on twenty producing countries representing 80% of world chemical market pulp capacity and is based on information compiled and prepared by the Pulp and Paper Products Council ("PPPC").

<sup>23</sup> As reported by PPPC statistics.

Compared to the third quarter of 2014, NBSK pulp sales realizations were moderately higher, with the benefit of a 17% weaker Canadian dollar outweighing lower US-dollar NBSK pulp list prices in all regions, increased shipments to lower-margin regions and slightly higher discounts to North America and Europe in the current quarter. The average North American NBSK pulp list price was US\$63 per tonne, or 6%, lower than the third quarter of 2014 with more pronounced declines seen in US-dollar NBSK list prices to China where the average NBSK price was down US\$90 per tonne, or 12%. Also compared to the same quarter in 2014, paper unit sales realizations were up significantly as lower prices in nearly all regions and lower prime bleached shipments were more than offset by the benefits of a 17% weaker Canadian dollar and increased shipments to higher-margin regions.

Energy revenue was up compared to the second quarter of 2015 reflecting increased turbine operating days and moderately higher energy prices in the current quarter. Compared to the same quarter in 2014, energy revenue was also higher with the incremental contribution from the Intercontinental Pulp Mill turbine which started selling power under an Electricity Purchase Agreement in April 2015.

### Operations

Pulp production in the current quarter was 310,500 tonnes, up 15,900 tonnes, or 5%, from the previous quarter, and up 5,200 tonnes, or 2%, from the third quarter of 2014. Production in the current quarter increased as a result of fewer maintenance outages quarter-over-quarter and improved operating rates in the third quarter of 2015. Pulp production in the current quarter included the scheduled maintenance outage at the Northwood Pulp Mill which reduced quarterly production by 6,000 tonnes while the second quarter of 2015 included scheduled outages at the Intercontinental and Prince George Pulp Mills reducing NBSK production by 11,000 tonnes, and a scheduled outage at the Taylor pulp mill reducing BCTMP production by 3,000 tonnes. Excluding the scheduled maintenance outages in both the third and second quarters of 2015, total pulp production was up approximately 8,000 tonnes in the third quarter, mostly as a result of improved NBSK pulp productivity, which included a new monthly production record in August.

Paper production in the third quarter of 2015 was 34,600 tonnes, up 3,600 tonnes, or 12%, from the second quarter of 2015 and down 1,300 tonnes, or 4%, from the third quarter of 2014. Current quarter paper production returned to more normalized levels following a scheduled nine day maintenance outage in the second quarter of 2015. Compared to the third quarter of 2014, the modest decline in paper production reflected slightly lower productivity rates in the current quarter.

Pulp unit manufacturing costs saw a modest decrease from the previous quarter, largely reflecting the quarter-over-quarter impacts of the scheduled maintenance outages as well as improved operating rates, coupled with seasonally lower energy costs and lower chemical costs in the current quarter. Fibre costs for the NBSK pulp mills were slightly lower than the previous quarter as higher prices for sawmill residual chips (linked to Canadian dollar NBSK pulp sales realizations) were more than offset by lower delivered freight costs and lower whole log chip costs. Lower BCTMP fibre costs in the current quarter reflected lower prices for sawmill residual chips (linked to lower Canadian dollar BCTMP pulp sales realizations). Paper unit manufacturing costs decreased marginally from the second quarter of 2015, largely reflecting the scheduled maintenance outage in the previous quarter offset by increased market-driven slush pulp costs and higher operating supply costs in the current quarter.

Pulp unit manufacturing costs were broadly in line with the third quarter of 2014, with the inclusion of the lower cost BCTMP Taylor pulp operation in the current quarter, improved NBSK productivity and lower energy costs offsetting modestly higher maintenance costs and higher NBSK fibre costs. Contributing to the higher NBSK pulp fibre costs in the current quarter were higher prices for sawmill residual chips, primarily reflecting increased Canadian dollar NBSK pulp sales realizations compared to the third quarter of 2014 and lower freight costs. Paper unit manufacturing costs reflected the impact of both higher slush pulp costs, principally reflecting higher pulp sales realizations, and higher operating supply costs in the current quarter.

## Unallocated and Other Items

### Selected Financial Information

(millions of Canadian dollars)	Q3 2015	Q2 2015	YTD 2015	Q3 2014	YTD 2014
Operating loss of Panels operations <sup>24</sup>	\$ (1.5)	\$ (0.6)	\$ (2.8)	\$ (0.7)	\$ (3.1)
Corporate costs	\$ (5.4)	\$ (7.8)	\$ (20.1)	\$ (6.4)	\$ (20.2)
Finance expense, net	\$ (6.4)	\$ (5.6)	\$ (17.3)	\$ (4.8)	\$ (13.6)
Gain (loss) on derivative financial instruments <sup>25</sup>	\$ (14.9)	\$ 12.7	\$ (30.2)	\$ (1.1)	\$ (1.5)
Other income (expense), net <sup>25</sup>	\$ 10.1	\$ 3.3	\$ 24.2	\$ 0.2	\$ (7.3)

<sup>24</sup> The Panels operations include the Company's PolarBoard oriented strand board ("OSB") plant, which is currently indefinitely idled and its Tackama plywood plant, which was closed in January 2012.

<sup>25</sup> In the prior periods, certain amounts have been reclassified from Other Income to (Gain) Loss on Derivative Financial Instruments, with no impact to net income.

During the third quarter of 2015, the Panels operations recorded a \$1.5 million operating loss, up from both comparable periods primarily reflecting ongoing maintenance, site clean-up and demolition costs during the quarter.

Corporate costs were \$5.4 million for the third quarter of 2015, down \$2.4 million from the previous quarter and down \$1.0 from the third quarter of 2014 primarily due to lower share based compensation expense recorded in the third quarter of 2015.

Net finance expense for the third quarter of 2015 was \$6.4 million, up \$0.8 million from the previous quarter and up \$1.6 million from the third quarter of 2014. Finance expense in the current quarter included one-time fees associated with the term debt refinancing that occurred in the third quarter of 2015 (see further discussion on the term debt refinancing in the "Liquidity and Financial Requirements" section). In addition, the increase in finance expense from the same quarter in 2014 also reflect higher net interest expense related to the Company's employee future benefit plans as well as higher net debt levels in the current quarter.

The Company uses a variety of derivative financial instruments as partial economic hedges against unfavourable changes in foreign exchange rates, energy costs, lumber prices and interest rates. For the third quarter of 2015, the Company recorded a net loss of \$14.9 million, principally reflecting realized losses on US dollar foreign exchange collars as a result of the weakening of the Canadian dollar during the quarter and to a lesser extent both realized and unrealized mark-to-market losses on diesel hedges.

Other income, net for the third quarter of 2015 of \$10.1 million principally reflected favourable exchange movements on US dollar denominated cash, receivables and payables, resulting from the weakening of the Canadian dollar through the quarter.

### **Other Comprehensive Income (Loss)**

The following table summarizes Canfor's Other Comprehensive Income (Loss) for the comparable periods:

(millions of Canadian dollars)	Q3 2015	Q2 2015	YTD 2015	Q3 2014	YTD 2014
Foreign exchange translation differences for foreign operations, net of tax	\$ 29.2	\$ (6.2)	\$ 57.3	\$ 11.2	\$ 11.8
Defined benefit actuarial gains (losses), net of tax	\$ 9.9	\$ 16.4	\$ 23.1	\$ 11.7	\$ (38.8)
Other comprehensive income (loss), net of tax	\$ 39.1	\$ 10.2	\$ 80.4	\$ 22.9	\$ (27.0)

In the third quarter of 2015, the Company recorded an after-tax gain of \$9.9 million in relation to changes in the valuation of the Company's employee future benefit plans. The gain principally reflected a higher discount rate used to value the net defined benefit obligation in part offset by a lower than expected return on plan assets. After-tax gains of \$16.4 million and \$11.7 million were recorded in the second quarter of 2015 and third quarter of 2014, respectively, with the gains in both quarters reflecting higher discount rates, while the gain in the third quarter of 2014 also included a modest return on plan assets.

In addition, the Company recorded a \$29.2 million other comprehensive gain in the quarter for foreign exchange translation differences for foreign operations, reflecting favourable foreign exchange movements during the quarter. This compared to a foreign exchange translation loss of \$6.2 million in the previous quarter and a foreign translation gain of \$11.2 million in the third quarter of 2014.

## SUMMARY OF FINANCIAL POSITION

The following table summarizes Canfor's cash flow and selected ratios for and as at the end of the following periods:

(millions of Canadian dollars, except for ratios)	Q3 2015	Q2 2015	YTD 2015	Q3 2014	YTD 2014
Increase (decrease) in cash and cash equivalents	\$ (57.2)	\$ (70.3)	\$ (71.6)	\$ 38.7	\$ 56.9
Operating activities	\$ 62.0	\$ 126.0	\$ 229.8	\$ 119.5	\$ 275.7
Financing activities	\$ (44.6)	\$ (71.2)	\$ (34.1)	\$ (7.2)	\$ (57.5)
Investing activities	\$ (74.6)	\$ (125.1)	\$ (267.3)	\$ (73.6)	\$ (161.3)
Ratio of current assets to current liabilities			1.3:1		1.7:1
Net debt to capitalization			15.3%		8.5%
ROIC - Consolidated period-to-date	(0.9%)	0.1%	1.9%	3.5%	10.7%

### Changes in Financial Position

Cash generated from operating activities was \$62.0 million in the third quarter of 2015, compared to cash generated of \$126.0 million in the previous quarter and cash generated of \$119.5 million in the same quarter of 2014. The decrease in operating cash flows from the previous quarter principally reflected lower cash earnings in the current period and the seasonal drawdown of log inventories in Western Canada in the second quarter of 2015. Also contributing to the reduction in operating cash flows from both comparative periods were increased income tax installment payments primarily related to Canfor Pulp Products Inc. ("CPPI"). During the third quarter of 2015, a reduction in finished inventory and trade receivable levels favourably impacted operating cash flow. Compared to the third quarter of the 2014, the decrease in operating cash flows was mostly attributable to lower cash earnings in the current quarter.

Cash used in financing activities was \$44.6 million in the current quarter, compared to cash used of \$71.2 million in the previous quarter and \$7.2 million in the same quarter of 2014. In a refinancing of its Canadian dollar denominated term debt, the Company reduced its term debt by \$50.0 million in the third quarter of 2015, ahead of its US\$100.0 million private placement financing that closed in early October (see "Liquidity and Financial Requirements" for more details). During the current quarter, the Company made cash distributions of \$43.1 million to non-controlling shareholders, up from \$6.7 million in the previous quarter and \$2.7 million in the same quarter of 2014, principally reflecting distributions made to the non-controlling shareholders of CPPI for the special dividend that was declared on July 21, 2015. CPPI purchased 557,401 common shares under its Normal Course Issuer Bid for \$6.9 million, of which \$6.7 million was paid in cash during the quarter. During the third quarter of 2015, the Company drew \$59.0 million against its operating loan facility and had \$201.0 million outstanding on this facility at the end of the quarter.

Cash used for investing activities was \$74.6 million in the current quarter, compared to \$125.1 million in the previous quarter and \$73.6 million in the same quarter of 2014. Cash used for capital additions was \$61.1 million, up \$11.7 million from the previous quarter and down \$2.4 million from the third quarter of 2014. Current quarter capital expenditures included the ongoing construction of the Company's pellet plants in Chetwynd and Fort St. John (see further discussion on the pellet plants in the following "Commitments and Subsequent Events" section), as well as smaller capital projects at both the SYP and Western SPF lumber operations including a new sales, supply chain and transportation ERP system in the US South, which went live on September 28, 2015. In the pulp and paper segment, capital expenditures primarily related to payments made for maintenance capital completed in the previous quarter and, to a lesser extent, payments related to the scheduled maintenance outage at the Northwood NBSK pulp mill in September. Investing activities in the current quarter also included cash consideration paid of \$30.0 million related to the timber investment loan made to Conifex Inc. and \$15.0 million received for the first payment related to the sale of the Company's investment in Lakeland Mills Ltd. and Winton Global Lumber Ltd ("Lakeland Winton").

### Liquidity and Financial Requirements

At September 30, 2015, the Company on a consolidated basis had cash of \$86.7 million, \$201.0 million drawn on its operating loans, and an additional \$50.8 million reserved for several standby letters of credit. During the quarter, the company drew \$59.0 million on its operating loan and had total available undrawn operating loans at period end of \$265.7 million. In the third quarter of 2015, Canfor's principal operating loans, excluding CPPI, were extended to

September 28, 2020 and, in conjunction with the extension, the financial covenants were modified to exclude the minimum net worth covenant based on shareholders' equity.

As previously highlighted, during the third quarter of 2015, the Company repaid \$50.0 million of its floating interest rate term debt, while at the same time extending its new \$125.0 million term debt out to September 28, 2020. The financial covenants on the new \$125.0 million term debt were also modified to exclude the minimum net worth covenant based on shareholders' equity. In conjunction with the acquisition of Anthony Forest Products Company, the Company priced a US\$100.0 million financing from Prudential Capital Group which closed on October 2, 2015. Also during the third quarter of 2015, the Company entered into a new eight-year floating interest rate term loan for an additional US\$100.0 million to further support growth in the US. This loan was undrawn as of September 30, 2015. Separately, CPPI has \$50.0 million of floating interest rate term debt, repayable in November 2018.

The Company and CPPI remained in compliance with the covenants relating to their operating loans and long-term debt during the quarter, and expect to remain so for the foreseeable future.

The Company's consolidated net debt to total capitalization at the end the third quarter of 2015 was 15.3%. For Canfor, excluding CPPI, net debt to capitalization at the end of the third quarter of 2015 was 15.6%.

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 third quarter of 2015, no common shares were purchased under the Normal Course Issuer Bid. Under a separate normal course issuer bid, CPPI purchased shares from non-controlling shareholders increasing Canfor's ownership to 51.4% by quarter end. Canfor and CPPI may purchase more shares through the balance of 2015 subject to the terms of their normal course issuer bids and certain Board approved criteria.

### **Commitments and Subsequent Events**

On January 30, 2015, the Company completed the third phase of the acquisition of Scotch Gulf increasing its ownership to 50%. On completion of this phase of the acquisition, Canfor obtained control for accounting purposes with the consolidation of Scotch Gulf starting on January 30, 2015. The final phase, whereby the Company will own 100% of Scotch Gulf, is scheduled to close in August 2016. The aggregate purchase price for Scotch Gulf is US\$80.5 million plus working capital.

On January 2, 2015, the first phase of the acquisition of Beadles & Balfour closed representing an initial 55% ownership interest. Canfor obtained control for accounting purposes with the consolidation of Beadles & Balfour starting on January 2, 2015. The final phase whereby Canfor will wholly own Beadles & Balfour is scheduled to close at the beginning of 2017. The aggregate purchase price for Beadles & Balfour is US\$68.0 million plus working capital.

In September 2014, the Company announced plans to construct a pellet plant at both the Chetwynd and Fort St. John Sawmill sites, in the Northern British Columbia interior (the "Pellet Plants") in partnership with Pacific BioEnergy Corporation ("Pacific BioEnergy"). Canfor owns an approximate 95% interest in the Pellet Plants while Pacific BioEnergy owns the remaining 5% and has an option to increase its ownership interest in the Pellet Plants up to a total of 30% over a three year period. The Chetwynd Pellet plant is anticipated to begin production in the fourth quarter of 2015 and the Fort St. John Pellet plant is anticipated to begin production in the first quarter of 2016.

On September 28, 2015, the Company entered into an agreement to purchase Anthony Forest Products Company headquartered in El Dorado, Arkansas for a purchase price of US\$93.5 million, including working capital. The acquisition is expected to close in the fourth quarter of 2015.

## **OUTLOOK**

### **Lumber**

North American lumber prices are forecast to improve slightly in the fourth quarter of 2015 due to relatively stable demand and light field inventory levels. The lumber market in Japan is forecast to remain stable while market conditions in China are projected to show a slight improvement as inventory levels return to a more normalized state.

With the low Random Lengths Framing Lumber Composite Price during the third quarter of 2015, an export duty of 15% was paid on exports to the US until the current softwood lumber agreement expired on October 12<sup>th</sup>, 2015.

## **Pulp and Paper**

For the month of October 2015, the Company's NBSK pulp list price is US\$960 per tonne in North America, unchanged from September 2015. With reported global softwood pulp inventories at the high end of what is considered a balanced market, there is some risk of downward pressure on global softwood pulp prices in the fourth quarter of 2015.

A scheduled maintenance outage at the Northwood Pulp Mill commenced in September 2015 and was completed in early October with a projected 26,000 tonnes of reduced NBSK pulp production, 6,000 tonnes of which fell in the third quarter of 2015 with the balance in the fourth quarter of 2015. No further maintenance outages are scheduled over the balance of 2015.

## **OUTSTANDING SHARES**

At October 28, 2015, there were 133,854,663 common shares of the Company outstanding.

## **CRITICAL ACCOUNTING ESTIMATES**

The preparation of financial statements in conformity with International Financial Reporting Standards requires management to make estimates and assumptions that affect the amounts recorded in the financial statements. On an ongoing basis, management reviews its estimates, including those related to useful lives for amortization, impairment of long-lived assets, certain accounts receivable, pension and other employee future benefit plans and asset retirement and deferred reforestation obligations based upon 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 the Company's financial condition.

## **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 the 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.

## **INTERNAL CONTROLS OVER FINANCIAL REPORTING**

During the quarter ended September 30, 2015, there were no changes in the Company's internal controls over financial reporting that materially affected, or would be reasonably likely to materially affect, such controls.

## **RISKS AND UNCERTAINTIES**

A comprehensive discussion of risks and uncertainties is included in the Company's 2014 annual statutory reports which are available on [www.canfor.com](http://www.canfor.com) or [www.sedar.com](http://www.sedar.com).

### Softwood Lumber Agreement

On October 12, 2015, the Softwood Lumber Agreement ("SLA") expired. No trade actions may be imposed for the importation of softwood lumber from Canada to the US for a period of twelve months following the SLA expiry date. It is uncertain whether a new agreement between the Governments of Canada and the U.S. will be reached.

In the first twelve days of October prior to the expiry of the SLA, the Company was subject to an export tax of 15% on US bound Canadian lumber shipments.

## SELECTED QUARTERLY FINANCIAL INFORMATION

	Q3 2015	Q2 2015	Q1 2015	Q4 2014	Q3 2014	Q2 2014	Q1 2014	Q4 2013
<b>Sales and income</b> (millions of Canadian dollars)								
Sales	\$ 989.9	\$ 952.4	\$ 930.0	\$ 860.4	\$ 838.0	\$ 907.3	\$ 741.9	\$ 809.5
Operating income	\$ 8.5	\$ 17.6	\$ 83.7	\$ 62.0	\$ 85.6	\$ 97.3	\$ 84.4	\$ 53.8
Net income	\$ 1.4	\$ 23.9	\$ 47.0	\$ 40.5	\$ 58.2	\$ 64.5	\$ 58.6	\$ 35.1
Shareholder net income (loss)	\$ (17.3)	\$ 11.1	\$ 29.3	\$ 29.9	\$ 45.5	\$ 54.3	\$ 45.5	\$ 28.0
<b>Per common share</b> (Canadian dollars)								
Shareholder net income (loss) – basic and diluted	\$ (0.13)	\$ 0.08	\$ 0.22	\$ 0.22	\$ 0.34	\$ 0.39	\$ 0.33	\$ 0.20
Book value <sup>26</sup>	\$ 10.00	\$ 9.86	\$ 9.76	\$ 10.25	\$ 10.24	\$ 9.75	\$ 10.05	\$ 9.82
<b>Statistics</b>								
Lumber shipments (MMfbm)	1,343	1,367	1,172	1,092	1,124	1,236	927	1,109
Pulp shipments (000 mt)	307	292	287	314	291	314	256	330
Average exchange rate – US\$/Cdn\$	\$ 0.764	\$ 0.813	\$ 0.806	\$ 0.881	\$ 0.918	\$ 0.917	\$ 0.906	\$ 0.953
Average Western SPF 2x4 #2&Btr lumber price (US\$)	\$ 269	\$ 270	\$ 308	\$ 340	\$ 357	\$ 335	\$ 367	\$ 370
Average SYP (East) 2x4 #2 lumber price (US\$)	\$ 331	\$ 383	\$ 413	\$ 427	\$ 438	\$ 405	\$ 403	\$ 415
Average NBSK pulp list price delivered to U.S. (US\$)	\$ 967	\$ 980	\$ 995	\$ 1,025	\$ 1,030	\$ 1,030	\$ 1,017	\$ 983

<sup>26</sup> Book value per common share is equal to shareholders' equity at the end of the period, divided by the number of common shares outstanding at the end of the period.

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

Other material 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)	Q3 2015	Q2 2015	Q1 2015	Q4 2014	Q3 2014	Q2 2014	Q1 2014	Q4 2013
<b>Shareholder net income (loss), as reported</b>	\$ (17.3)	\$ 11.1	\$ 29.3	\$ 29.9	\$ 45.5	\$ 54.3	\$ 45.5	\$ 28.0
(Gain) loss on derivative financial instruments	\$ 9.3	\$ (7.7)	\$ 17.2	\$ 5.2	\$ 0.7	\$ (2.1)	\$ 2.1	\$ 0.1
Mill closure provisions	\$ 14.4	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 14.8
Mark-to-market gain on investment in Lakeland Mills Ltd. and Winton Global Lumber Ltd.	\$ -	\$ (6.1)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Mark-to-market adjustment, net to Taylor pulp mill contingent consideration	\$ -	\$ 0.7	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Mark-to-market adjustment to Canfor-LP OSB sale contingent consideration	\$ -	\$ -	\$ -	\$ -	\$ 4.5	\$ 4.5	\$ 0.4	\$ 3.6
Gain on sale of Daaquam operation	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (1.6)	\$ -
Foreign exchange loss on long-term debt and investments, net	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1.5
One-time costs associated with collective agreements for the lumber business	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 0.8
Net impact of above items	\$ 23.7	\$ (13.1)	\$ 17.2	\$ 5.2	\$ 5.2	\$ 2.4	\$ 0.9	\$ 20.8
<b>Adjusted shareholder net income (loss)</b>	\$ 6.4	\$ (2.0)	\$ 46.5	\$ 35.1	\$ 50.7	\$ 56.7	\$ 46.4	\$ 48.8
<b>Shareholder net income (loss) per share (EPS), as reported</b>	\$ (0.13)	\$ 0.08	\$ 0.22	\$ 0.22	\$ 0.34	\$ 0.39	\$ 0.33	\$ 0.20
Net impact of above items per share	\$ 0.18	\$ (0.10)	\$ 0.13	\$ 0.04	\$ 0.04	\$ 0.02	\$ 0.01	\$ 0.15
<b>Adjusted net income (loss) per share</b>	\$ 0.05	\$ (0.02)	\$ 0.35	\$ 0.26	\$ 0.38	\$ 0.41	\$ 0.34	\$ 0.35

## Canfor Corporation Condensed Consolidated Balance Sheets

(millions of Canadian dollars, unaudited)	As at September 30, 2015	As at December 31, 2014
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 86.7	\$ 158.3
Restricted cash (Note 13(b))	-	50.2
Accounts receivable - Trade	124.8	91.3
- Other	64.8	38.8
Inventories (Note 2)	548.2	517.7
Prepaid expenses and other assets	81.1	46.3
<b>Total current assets</b>	<b>905.6</b>	<b>902.6</b>
<b>Property, plant and equipment</b>		
	1,363.4	1,216.1
<b>Timber licenses</b>		
	508.2	519.5
<b>Goodwill and other intangible assets (Note 13(a,b,c))</b>		
	195.7	105.0
<b>Retirement benefit surplus (Note 5)</b>		
	5.6	0.6
<b>Long-term investments and other (Note 3)</b>		
	77.0	101.3
<b>Deferred income taxes, net</b>		
	1.4	1.7
<b>Total assets</b>	<b>\$ 3,056.9</b>	<b>\$ 2,846.8</b>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Operating loans (Note 4(a))	\$ 201.0	\$ 68.0
Accounts payable and accrued liabilities	357.2	305.8
Current portion of deferred reforestation obligations	50.7	52.1
Forward purchase liability (Note 13(a))	73.2	-
<b>Total current liabilities</b>	<b>682.1</b>	<b>425.9</b>
<b>Long-term debt (Note 4(b))</b>		
	179.2	228.6
<b>Retirement benefit obligations (Note 5)</b>		
	256.2	263.2
<b>Deferred reforestation obligations</b>		
	58.6	60.0
<b>Other long-term liabilities</b>		
	17.0	19.6
<b>Forward purchase liability (Note 13(b))</b>		
	41.4	-
<b>Deferred income taxes, net</b>		
	193.9	211.9
<b>Total liabilities</b>	<b>\$ 1,428.4</b>	<b>\$ 1,209.2</b>
<b>EQUITY</b>		
Share capital	\$ 1,056.0	\$ 1,068.0
Contributed surplus and other equity	(74.5)	31.9
Retained earnings	272.7	260.1
Accumulated foreign exchange translation differences	84.5	27.2
<b>Total equity attributable to equity shareholders of the Company</b>	<b>1,338.7</b>	<b>1,387.2</b>
Non-controlling interests	289.8	250.4
<b>Total equity</b>	<b>\$ 1,628.5</b>	<b>\$ 1,637.6</b>
<b>Total liabilities and equity</b>	<b>\$ 3,056.9</b>	<b>\$ 2,846.8</b>

### Subsequent Events (Note 14(a,b))

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 September 30,		9 months ended September 30,	
	<b>2015</b>	2014	<b>2015</b>	2014
<b>Sales</b>	<b>\$ 989.9</b>	\$ 838.0	<b>\$ 2,872.3</b>	\$ 2,487.2
<b>Costs and expenses</b>				
Manufacturing and product costs	<b>709.1</b>	544.4	<b>2,025.1</b>	1,610.3
Freight and other distribution costs	<b>165.3</b>	140.7	<b>470.8</b>	410.9
Export taxes	<b>14.3</b>	-	<b>24.8</b>	-
Amortization	<b>52.6</b>	47.1	<b>154.1</b>	135.6
Selling and administration costs	<b>20.0</b>	19.0	<b>64.0</b>	58.0
Restructuring, mill closure and severance costs	<b>20.1</b>	1.2	<b>23.7</b>	5.1
	<b>981.4</b>	752.4	<b>2,762.5</b>	2,219.9
<b>Operating income</b>	<b>8.5</b>	85.6	<b>109.8</b>	267.3
Finance expense, net	<b>(6.4)</b>	(4.8)	<b>(17.3)</b>	(13.6)
Loss on derivative financial instruments (Note 6)	<b>(14.9)</b>	(1.1)	<b>(30.2)</b>	(1.5)
Other income (expense), net	<b>10.1</b>	0.2	<b>24.2</b>	(7.3)
Net income (loss) before income taxes	<b>(2.7)</b>	79.9	<b>86.5</b>	244.9
Income tax recovery (expense) (Note 7)	<b>4.1</b>	(21.7)	<b>(14.2)</b>	(63.6)
<b>Net income</b>	<b>\$ 1.4</b>	\$ 58.2	<b>\$ 72.3</b>	\$ 181.3
<b>Net income (loss) attributable to:</b>				
Equity shareholders of the Company	<b>\$ (17.3)</b>	\$ 45.5	<b>\$ 23.1</b>	\$ 145.3
Non-controlling interests	<b>18.7</b>	12.7	<b>49.2</b>	36.0
<b>Net income</b>	<b>\$ 1.4</b>	\$ 58.2	<b>\$ 72.3</b>	\$ 181.3
<b>Net income (loss) per common share:</b> (in Canadian dollars)				
Attributable to equity shareholders of the Company				
- Basic and diluted (Note 8)	<b>\$ (0.13)</b>	\$ 0.34	<b>\$ 0.17</b>	\$ 1.05

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,		9 months ended September 30,	
	2015	2014	2015	2014
<b>Net income</b>	\$ 1.4	\$ 58.2	\$ 72.3	\$ 181.3
<b>Other comprehensive income (loss)</b>				
Items that will not be recycled through net income:				
Defined benefit plan actuarial gains (losses) (Note 5)	13.3	15.8	31.2	(52.5)
Income tax recovery (expense) on defined benefit plan actuarial gains (losses) (Note 7)	(3.4)	(4.1)	(8.1)	13.7
	9.9	11.7	23.1	(38.8)
Items that may be recycled through net income:				
Foreign exchange translation differences for foreign operations, net of tax	29.2	11.2	57.3	11.8
Other comprehensive income (loss), net of tax	39.1	22.9	80.4	(27.0)
<b>Total comprehensive income</b>	\$ 40.5	\$ 81.1	\$ 152.7	\$ 154.3
<b>Total comprehensive income attributable to:</b>				
Equity shareholders of the Company	\$ 20.4	\$ 67.5	\$ 101.0	\$ 121.7
Non-controlling interests	20.1	13.6	51.7	32.6
<b>Total comprehensive income</b>	\$ 40.5	\$ 81.1	\$ 152.7	\$ 154.3

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,		9 months ended September 30,	
	2015	2014	2015	2014
<b>Share capital</b>				
Balance at beginning of period	\$ 1,056.0	\$ 1,068.0	\$ 1,068.0	\$ 1,103.7
Share purchases (Note 8)	-	-	(12.0)	(35.7)
Balance at end of period	\$ 1,056.0	\$ 1,068.0	\$ 1,056.0	\$ 1,068.0
<b>Contributed surplus and other equity</b>				
Balance at beginning of period	\$ (74.5)	\$ 31.9	\$ 31.9	\$ 31.9
Forward purchase liabilities related to acquisitions (Note 13(a,b))	-	-	(106.4)	-
Balance at end of period	\$ (74.5)	\$ 31.9	\$ (74.5)	\$ 31.9
<b>Retained earnings</b>				
Balance at beginning of period	\$ 283.1	\$ 214.6	\$ 260.1	\$ 234.2
Net income (loss) attributable to equity shareholders of the Company	(17.3)	45.5	23.1	145.3
Defined benefit plan actuarial gains (losses), net of tax	8.5	10.8	20.6	(35.4)
Share purchases (Note 8)	-	-	(27.2)	(73.2)
Acquisition of non-controlling interests (Note 8)	(1.6)	(0.4)	(3.9)	(0.4)
Balance at end of period	\$ 272.7	\$ 270.5	\$ 272.7	\$ 270.5
<b>Accumulated foreign exchange translation differences</b>				
Balance at beginning of period	\$ 55.3	\$ 5.1	\$ 27.2	\$ 4.5
Foreign exchange translation differences for foreign operations, net of tax	29.2	11.2	57.3	11.8
Balance at end of period	\$ 84.5	\$ 16.3	\$ 84.5	\$ 16.3
<b>Total equity attributable to equity holders of the Company</b>	<b>\$ 1,338.7</b>	<b>\$ 1,386.7</b>	<b>\$ 1,338.7</b>	<b>\$ 1,386.7</b>
<b>Non-controlling interests</b>				
Balance at beginning of period	\$ 318.1	\$ 237.1	\$ 250.4	\$ 223.1
Net income attributable to non-controlling interests	18.7	12.7	49.2	36.0
Defined benefit plan actuarial gains (losses) attributable to non-controlling interests, net of taxes	1.4	0.9	2.5	(3.4)
Distributions to non-controlling interests	(43.1)	(2.7)	(52.8)	(7.7)
Acquisition of non-controlling interests (Note 8)	(5.3)	(1.6)	(12.0)	(1.6)
Non-controlling interests arising on acquisitions (Note 13(a,b))	-	-	52.5	-
Balance at end of period	\$ 289.8	\$ 246.4	\$ 289.8	\$ 246.4
<b>Total equity</b>	<b>\$ 1,628.5</b>	<b>\$ 1,633.1</b>	<b>\$ 1,628.5</b>	<b>\$ 1,633.1</b>

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,		9 months ended September 30,	
	2015	2014	2015	2014
<b>Cash generated from (used in):</b>				
<b>Operating activities</b>				
Net income	\$ 1.4	\$ 58.2	\$ 72.3	\$ 181.3
Items not affecting cash:				
Amortization	52.6	47.1	154.1	135.6
Income tax expense (recovery)	(4.1)	21.7	14.2	63.6
Long-term portion of deferred reforestation obligations	(4.0)	(3.9)	(2.0)	0.3
Changes in mark-to-market value of derivative financial instruments	1.3	1.3	1.7	1.7
Employee future benefits	3.7	3.3	11.1	9.7
Finance expense, net	6.4	4.8	17.3	13.6
Mill closure provisions	19.4	-	19.4	-
Other, net	0.6	8.7	8.5	17.3
Defined benefit pension plan withdrawals (contributions), net	2.7	(6.4)	0.2	(25.8)
Income taxes paid, net	(25.1)	(15.1)	(59.2)	(36.4)
	<b>54.9</b>	<b>119.7</b>	<b>237.6</b>	<b>360.9</b>
Net change in non-cash working capital (Note 9)	7.1	(0.2)	(7.8)	(85.2)
	<b>62.0</b>	<b>119.5</b>	<b>229.8</b>	<b>275.7</b>
<b>Financing activities</b>				
Change in operating bank loans (Note 4(a))	59.0	2.0	133.0	69.8
Repayment of long-term debt, net (Note 4(b))	(50.0)	-	(50.0)	-
Finance expenses paid	(3.8)	(3.3)	(9.4)	(8.7)
Share purchases (Note 8)	-	(1.2)	(39.2)	(108.9)
Acquisition of non-controlling interests (Note 8)	(6.7)	(2.0)	(15.7)	(2.0)
Cash distributions paid to non-controlling interests	(43.1)	(2.7)	(52.8)	(7.7)
	<b>(44.6)</b>	<b>(7.2)</b>	<b>(34.1)</b>	<b>(57.5)</b>
<b>Investing activities</b>				
Additions to property, plant and equipment and intangible assets, net	(61.1)	(63.5)	(156.3)	(179.6)
Timber investment loan (Note 3)	(30.0)	-	(30.0)	-
Proceeds on sale of Lakeland Winton (Note 3)	15.0	-	15.0	-
Acquisitions (Note 13(a,b,c))	-	(9.9)	(139.5)	(9.9)
Change in restricted cash (Note 13(b))	-	-	50.2	-
Proceeds on sale of Daaquam Sawmill (Note 11)	-	0.7	-	23.6
Other, net	1.5	(0.9)	(6.7)	(4.6)
	<b>(74.6)</b>	<b>(73.6)</b>	<b>(267.3)</b>	<b>(161.3)</b>
<b>Increase (decrease) in cash and cash equivalents*</b>	<b>(57.2)</b>	<b>38.7</b>	<b>(71.6)</b>	<b>56.9</b>
Cash and cash equivalents at beginning of period*	143.9	107.7	158.3	89.5
<b>Cash and cash equivalents at end of period*</b>	<b>\$ 86.7</b>	<b>\$ 146.4</b>	<b>\$ 86.7</b>	<b>\$ 146.4</b>

\*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](http://www.canfor.com) or [www.sedar.com](http://www.sedar.com).

There have been no new significant 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 October 28, 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 the 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 September 30, 2015	As at December 31, 2014
Logs	\$ 133.3	\$ 122.6
Finished products	291.1	281.0
Residual fibre	13.0	10.3
Processing materials and supplies	110.8	103.8
	<b>\$ 548.2</b>	<b>\$ 517.7</b>

The above inventory balances are stated after inventory write-downs from cost to net realizable value. Write-downs at September 30, 2015 totaled \$7.7 million (December 31, 2014 – nil).

### 3. Long-Term Investments and Other

(millions of Canadian dollars, unaudited)	As at September 30, 2015	As at December 31, 2014
Investments	\$ 37.2	\$ 64.4
Term loan Scotch Gulf (Note 13(a))	-	23.2
Other deposits, loans and advances	39.8	13.7
	<b>\$ 77.0</b>	<b>\$ 101.3</b>

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.

On July 1, 2015, the Company sold its 33.3% investment in Lakeland Mills Ltd. and Winton Global Lumber Ltd. ("Lakeland Winton") to Robert Stewart Holdings Ltd. for cash 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 is scheduled to be received on July 1, 2017 and is recorded as a receivable under Long-Term Investments and Other.

During the third quarter of 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 metres of annual allowable cut. Canfor has the option, exercisable after one year, to convert the loan into an ownership interest in the forest license.

### 4. Operating Loans and Long-Term Debt

#### (a) Available Operating Loans

(millions of Canadian dollars, unaudited)	As at September 30, 2015	As at December 31, 2014
<b>Canfor (excluding CPPI)</b>		
Available Operating Loans:		
Operating loan facility - Canfor	\$ 350.0	\$ 350.0
Facility for letters of credit - Canfor	37.5	37.5
Total operating loans - Canfor	387.5	387.5
Operating loan drawn	(201.0)	(68.0)
Letters of credit	(38.0)	(13.8)
Total available operating loans - Canfor (excluding CPPI)	\$ 148.5	\$ 305.7
<b>CPPI</b>		
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	(12.8)	(12.2)
Total available operating loans - CPPI	\$ 117.2	\$ 117.8
<b>Consolidated:</b>		
<b>Total operating loans</b>	<b>\$ 517.5</b>	<b>\$ 517.5</b>
<b>Total available operating loans</b>	<b>\$ 265.7</b>	<b>\$ 423.5</b>

In the third quarter of 2015, Canfor's principal operating loans, excluding Canfor Pulp Products Inc. ("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 net 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 the third quarter of 2015. 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.

Both Canfor's and CPPI's operating loan facilities have certain financial covenants, including maximum net debt to total capitalization ratios. In conjunction with the extension of both operating facilities in the third quarter of 2015, 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, 2015, \$33.4 million of letters of credit were covered under this facility with the balance of \$4.6 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 September 30, 2015, \$9.4 million of energy-related letters of credit were covered under this facility with the balance of \$3.4 million covered under CPPI's general operating loan facility.

As at September 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.

***(b) Long-Term Debt***

On September 28, 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 a maturity of September 28, 2020, resulting in a net decrease in debt of \$50.0 million in the third quarter of 2015. The term debt financing was completed to rebalance the Company's debt levels prior to the completion of the US\$100.0 million financing with Prudential Capital Group (Note 14 (a)). The new \$125.0 million term debt also excludes the minimum net worth financial covenant and is subject to the same financial covenants as the Company's operating loan facility.

During the third quarter of 2015, the Company also 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 at maturity and features financial covenants consistent with other borrowings of the Company. The debt was undrawn as of September 30, 2015.

**5. Employee Future Benefits**

For the three months ended September 30, 2015, defined benefit actuarial gains of \$13.3 million (before tax) were recognized in other comprehensive income. The gains recorded in the third quarter of 2015 principally reflect a higher discount rate used to value the net defined benefit obligations offset by lower than expected return on plan assets. For the nine months ended September 30, 2015, gains of \$31.2 million (before tax) were recognized in other comprehensive income. For the three months ended September 30, 2014, an amount of \$15.8 million (before tax) was credited to other comprehensive income, and for the nine months ended September 30, 2014, the losses were \$52.5 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:

	<b>Pension Benefit Plans</b>	<b>Other Benefit Plans</b>
September 30, 2015	<b>4.10%</b>	<b>4.10%</b>
June 30, 2015	3.90%	3.90%
December 31, 2014	3.90%	3.90%
September 30, 2014	4.40%	4.40%
June 30, 2014	4.30%	4.40%
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 September 30, 2015, the fair value of the Company's long-term debt approximates its amortized cost of \$179.2 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 September 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	<b>As at September 30, 2015</b>	As at December 31, 2014
<b>Financial assets measured at fair value</b>			
Investments - held for trading	Level 1	\$ 14.5	\$ -
Derivative financial instruments - held for trading	Level 2	-	0.3
Royalty receivable - available for sale	Level 3	0.9	2.9
		<b>\$ 15.4</b>	<b>\$ 3.2</b>
<b>Financial liabilities measured at fair value</b>			
Derivative financial instruments - held for trading	Level 2	10.5	9.1
		<b>\$ 10.5</b>	<b>\$ 9.1</b>

The Company 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 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. The royalty agreement expired in September, 2015 and the amount outstanding represents the final payment to Canfor under the agreement.

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 September 30, 2015, the fair value of derivative financial instruments was a net liability of \$10.5 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 losses on derivative financial instruments for the three and nine month periods ended September 30, 2015 and 2014:

(millions of Canadian dollars, unaudited)	3 months ended September 30,		9 months ended September 30,	
	<b>2015</b>	2014	<b>2015</b>	2014
Foreign exchange collars and forward contracts	\$ (8.5)	\$ (0.7)	\$ (20.9)	\$ (1.1)
Energy derivatives	(5.4)	(0.9)	(5.0)	(0.3)
Lumber futures	(0.8)	0.6	(2.9)	1.4
Pulp futures	-	(0.1)	-	(0.8)
Interest rate swaps	(0.2)	-	(1.4)	(0.7)
Loss on derivative financial instruments	<b>\$ (14.9)</b>	<b>\$ (1.1)</b>	<b>\$ (30.2)</b>	<b>\$ (1.5)</b>

## 7. Income Taxes

(millions of Canadian dollars, unaudited)	3 months ended September 30,		9 months ended September 30,	
	2015	2014	2015	2014
Current	\$ (9.7)	\$ (15.0)	\$ (26.2)	\$ (38.4)
Deferred	13.8	(6.7)	12.0	(25.2)
Income tax recovery (expense)	\$ 4.1	\$ (21.7)	\$ (14.2)	\$ (63.6)

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

(millions of Canadian dollars, unaudited)	3 months ended September 30,		9 months ended September 30,	
	2015	2014	2015	2014
Income tax recovery (expense) at statutory rate				
2015 - 26.0% (2014 - 26.0%)	\$ 0.7	\$ (20.8)	\$ (22.5)	\$ (63.7)
Add (deduct):				
Entities with different income tax rates and other tax adjustments	2.7	(1.3)	4.8	(0.4)
Non-taxable income related to non-controlling interests	0.8	0.2	3.0	0.5
Permanent difference from capital gains and losses and other non-deductible items	(0.1)	0.2	0.5	-
Income tax recovery (expense)	\$ 4.1	\$ (21.7)	\$ (14.2)	\$ (63.6)

In addition to the amounts recorded to net income, a tax expense of \$3.4 million was recorded to other comprehensive income for the three month period ended September 30, 2015 (three months ended September 30, 2014 - tax expense of \$4.1 million) in relation to the actuarial gains on defined benefit employee compensation plans. For the nine months ended September 30, 2015, the tax expense was \$8.1 million (nine months ended September 30, 2014 - tax recovery of \$13.7 million).

Also included in other comprehensive income for the three months ended September 30, 2015 was a tax expense of \$2.7 million related to foreign exchange differences on translation of investments in foreign operations (three months ended September 30, 2014 - tax expense of \$1.6 million). For the nine months ended September 30, 2015, the tax expense was \$4.6 million (nine months ended September 30, 2014 - tax expense of \$1.6 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 shareholders by the weighted average number of common shares outstanding during the period.

	3 months ended September 30,		9 months ended September 30,	
	2015	2014	2015	2014
Weighted average number of common shares	133,854,693	135,376,993	134,324,118	137,941,437

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 third quarter of 2015, Canfor did not purchase any common shares. Under a separate normal course issuer bid, CPPI purchased shares from non-controlling shareholders during 2015 increasing Canfor's ownership from 50.5% at December 31, 2014 to 51.4% at September 30, 2015. As at October 28, 2015, there were 133,854,693 common shares of the Company outstanding.

## 9. Net Change in Non-Cash Working Capital

(millions of Canadian dollars, unaudited)	3 months ended September 30,		9 months ended September 30,	
	2015	2014	2015	2014
Accounts receivable	\$ 21.4	\$ 33.0	\$ (25.7)	\$ (0.4)
Inventories	(9.1)	(23.3)	0.2	(53.7)
Prepaid expenses and other assets	9.7	(9.5)	(19.9)	(25.4)
Accounts payable, accrued liabilities and current portion of deferred reforestation obligations	(14.9)	(0.4)	37.6	(5.7)
Net decrease (increase) in non-cash working capital	\$ 7.1	\$ (0.2)	\$ (7.8)	\$ (85.2)

## 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
<b>3 months ended September 30, 2015</b>					
<b>Sales to external customers</b>	\$ 695.3	294.6	-	-	\$ 989.9
<b>Sales to other segments</b>	\$ 42.2	-	-	(42.2)	\$ -
<b>Operating income (loss)</b>	\$ (26.9)	42.3	(6.9)	-	\$ 8.5
<b>Amortization</b>	\$ 35.3	16.3	1.0	-	\$ 52.6
<b>Capital expenditures</b>	\$ 42.8	14.6	3.7	-	\$ 61.1
3 months ended September 30, 2014					
Sales to external customers	\$ 570.5	267.5	-	-	\$ 838.0
Sales to other segments	\$ 33.2	-	-	(33.2)	\$ -
Operating income (loss)	\$ 59.6	33.1	(7.1)	-	\$ 85.6
Amortization	\$ 29.1	16.8	1.2	-	\$ 47.1
Capital expenditures <sup>1</sup>	\$ 46.3	16.2	1.0	-	\$ 63.5
<b>9 months ended September 30, 2015</b>					
<b>Sales to external customers</b>	\$ 2,018.3	854.0	-	-	\$ 2,872.3
<b>Sales to other segments</b>	\$ 121.4	-	-	(121.4)	\$ -
<b>Operating income (loss)</b>	\$ 26.5	106.2	(22.9)	-	\$ 109.8
<b>Amortization</b>	\$ 103.0	47.8	3.3	-	\$ 154.1
<b>Capital expenditures<sup>1</sup></b>	\$ 107.9	40.8	7.6	-	\$ 156.3
<b>Identifiable assets</b>	\$ 2,061.0	791.6	204.3	-	\$ 3,056.9
9 months ended September 30, 2014					
Sales to external customers	\$ 1,680.7	806.5	-	-	\$ 2,487.2
Sales to other segments	\$ 103.1	-	-	(103.1)	\$ -
Operating income (loss)	\$ 190.1	100.5	(23.3)	-	\$ 267.3
Amortization	\$ 85.1	49.0	1.5	-	\$ 135.6
Capital expenditures <sup>1</sup>	\$ 125.0	46.5	8.1	-	\$ 179.6
Identifiable assets	\$ 1,821.7	782.5	209.6	-	\$ 2,813.8

<sup>1</sup> 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 nine months ended September 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 September 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 amounts of assets acquired and liabilities assumed and the non-controlling interest recognized at the acquisition date:

(millions of Canadian dollars, unaudited)

<b>Total consideration</b>	
Cash	\$ 23.3
Fair value of equity interest in Scotch Gulf held immediately before the business combination	46.6
<b>Total consideration</b>	<b>\$ 69.9</b>

(millions of Canadian dollars, unaudited)

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

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 nine months ended September 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. In the third quarter of 2015, the forward purchase liability, which is now valued at \$73.2 million due to the change in the US dollar foreign exchange rate, was reclassified to current on the balance sheet to reflect the scheduled timing of the final step in the phased acquisition of Scotch Gulf.

**(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% on January 2, 2017.

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 amounts of assets acquired and liabilities assumed and the non-controlling interest recognized at the acquisition date:

(millions of Canadian dollars, unaudited)

<b>Total consideration</b>		
Cash consideration paid	\$	50.8
Consideration payable		0.8
<b>Total consideration</b>	<b>\$</b>	<b>51.6</b>

(millions of Canadian dollars, unaudited)

Land	\$	2.6
Buildings, equipment and mobile		34.1
Non-cash working capital, net		8.3
<b>Total net identifiable assets</b>	<b>\$</b>	<b>45.0</b>
Non-controlling interest		(20.2)
Goodwill		17.7
Deferred tax asset, net		9.1
<b>Total consideration</b>	<b>\$</b>	<b>51.6</b>

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. At September 30, 2015, the forward purchase liability is valued at \$41.4 million due to the change in the US dollar foreign exchange rate.

***(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)

<b>Total consideration</b>		
Cash consideration paid	\$	65.6
<b>Total consideration</b>	<b>\$</b>	<b>65.6</b>

(millions of Canadian dollars, unaudited)

Land	\$	0.5
Buildings, equipment and mobile		13.6
Non-cash working capital, net		4.2
<b>Total net identifiable assets</b>	<b>\$</b>	<b>18.3</b>
Goodwill		47.3
<b>Total consideration</b>	<b>\$</b>	<b>65.6</b>

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**

### ***(a) Acquisition of Anthony Forest Products Company***

On September 28, 2015, the Company entered into an agreement to purchase Anthony Forest Products Company headquartered in El Dorado, Arkansas for a purchase price of US\$93.5 million, including working capital. As a result of the acquisition, Canfor will recognize approximately US\$15.0 million of working capital and US\$78.5 million of long-term assets acquired net of liabilities assumed. The acquisition is expected to close in the fourth quarter of 2015.

Concurrent with the announced acquisition, the Company issued US\$100.0 million of senior unsecured notes to Prudential Capital Group, bearing interest at 4.40% subsequent to quarter end. 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.

### ***(b) Expiration of the Softwood Lumber Agreement***

On October 12, 2015, the Softwood Lumber Agreement ("SLA") expired. No trade actions may be imposed for the importation of softwood lumber from Canada to the US for a period of twelve months following the SLA expiry date. It is uncertain whether a new agreement between with Governments of Canada and the US will be reached.

In the first twelve days of October prior to the expiry of the SLA, the Company was subject to an export tax of 15% on US bound Canadian lumber shipments.