

The background of the entire page is a photograph of a vast, dense forest of evergreen trees. In the distance, rolling hills or mountains are visible under a sky with soft, wispy clouds. The lighting suggests a sunrise or sunset, with a warm, golden glow over the landscape.

2016

CANFOR CORPORATION
QUARTER TWO
FINANCIAL STATEMENTS

Canfor Corporation

Condensed Consolidated Balance Sheets

	As at June 30, 2016	As at December 31, 2015
(millions of Canadian dollars, unaudited)		
ASSETS		
Current assets		
Cash and cash equivalents	\$ 157.5	\$ 97.5
Accounts receivable - Trade	198.6	191.8
- Other	72.0	61.1
Inventories (Note 2)	541.7	587.2
Prepaid expenses	69.8	53.2
Total current assets	1,039.6	990.8
Property, plant and equipment	1,453.9	1,445.1
Timber licenses	547.5	515.2
Goodwill and other intangible assets	226.9	241.0
Long-term investments and other (Note 3)	72.7	98.6
Retirement benefit surplus (Note 5)	0.8	2.7
Deferred income taxes, net	2.3	1.2
Total assets	\$ 3,343.7	\$ 3,294.6
LIABILITIES		
Current liabilities		
Operating loans (Note 4)	\$ 129.0	\$ 158.0
Accounts payable and accrued liabilities	407.1	350.3
Current portion of deferred reforestation obligations	51.0	50.7
Forward purchase liabilities (Note 12)	111.9	76.1
Total current liabilities	699.0	635.1
Long-term debt (Note 4)	439.4	456.2
Retirement benefit obligations (Note 5)	326.7	258.6
Deferred reforestation obligations	68.5	61.6
Other long-term liabilities	23.4	20.1
Forward purchase liability (Note 12)	-	43.0
Deferred income taxes, net	178.1	192.3
Total liabilities	\$ 1,735.1	\$ 1,666.9
EQUITY		
Share capital	\$ 1,047.7	\$ 1,047.7
Contributed surplus and other equity	(74.5)	(74.5)
Retained earnings	270.0	257.7
Accumulated foreign exchange translation of foreign operations	74.7	100.0
Total equity attributable to equity shareholders of the Company	1,317.9	1,330.9
Non-controlling interests	290.7	296.8
Total equity	\$ 1,608.6	\$ 1,627.7
Total liabilities and equity	\$ 3,343.7	\$ 3,294.6

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

APPROVED BY THE BOARD

"R.S. Smith"

Director, R.S. Smith

"M.J. Korenberg"

Director, M.J. Korenberg

Canfor Corporation

Condensed Consolidated Statements of Income

(millions of Canadian dollars, except per share data, unaudited)		3 months ended June 30,		6 months ended June 30,	
		2016	2015	2016	2015
Sales	\$	1,022.3	\$ 952.4	\$ 2,090.2	\$ 1,882.4
Costs and expenses					
Manufacturing and product costs		715.0	690.2	1,465.0	1,316.0
Freight and other distribution costs		156.4	159.3	324.3	305.5
Export taxes		-	10.5	-	10.5
Amortization		57.5	52.2	118.1	101.5
Selling and administration costs		23.4	21.7	47.8	44.0
Restructuring, mill closure and severance costs		1.5	0.9	2.5	3.6
		953.8	934.8	1,957.7	1,781.1
Equity income (Note 3)		1.1	-	2.2	-
Operating income		69.6	17.6	134.7	101.3
Finance expense, net		(8.4)	(5.6)	(16.6)	(10.9)
Foreign exchange gain on long-term debt		0.4	-	8.3	-
Gain (loss) on derivative financial instruments (Note 6)		3.1	12.7	0.7	(15.3)
Other income (expense), net		0.4	3.3	(9.7)	14.1
Net income before income taxes		65.1	28.0	117.4	89.2
Income tax expense (Note 7)		(14.1)	(4.1)	(24.1)	(18.3)
Net income	\$	51.0	\$ 23.9	\$ 93.3	\$ 70.9
Net income attributable to:					
Equity shareholders of the Company	\$	36.0	\$ 11.1	\$ 62.0	\$ 40.4
Non-controlling interests		15.0	12.8	31.3	30.5
Net income	\$	51.0	\$ 23.9	\$ 93.3	\$ 70.9
Net income per common share: (in Canadian dollars)					
Attributable to equity shareholders of the Company					
- Basic and diluted (Note 8)	\$	0.27	\$ 0.08	\$ 0.47	\$ 0.30

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

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

(millions of Canadian dollars, unaudited)	3 months ended June 30,		6 months ended June 30,	
	2016	2015	2016	2015
Net income	\$ 51.0	\$ 23.9	\$ 93.3	\$ 70.9
Other comprehensive income (loss)				
Items that will not be recycled through net income:				
Defined benefit pension plan actuarial gains (losses) (Note 5)	(45.4)	22.2	(69.2)	17.9
Income tax recovery (expense) on defined benefit pension plan actuarial gains (losses) (Note 7)	11.8	(5.8)	18.0	(4.7)
	(33.6)	16.4	(51.2)	13.2
Items that may be recycled through net income:				
Foreign exchange translation differences for foreign operations, net of tax	(0.8)	(6.2)	(25.3)	28.1
Other comprehensive income (loss), net of tax	(34.4)	10.2	(76.5)	41.3
Total comprehensive income	\$ 16.6	\$ 34.1	\$ 16.8	\$ 112.2
Total comprehensive income (loss) attributable to:				
Equity shareholders of the Company	\$ 5.9	\$ 19.1	\$ (8.5)	\$ 80.6
Non-controlling interests	10.7	15.0	25.3	31.6
Total comprehensive income	\$ 16.6	\$ 34.1	\$ 16.8	\$ 112.2

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 June 30,		6 months ended June 30,	
	2016	2015	2016	2015
Share capital				
Balance at beginning of period	\$ 1,047.7	\$ 1,059.3	\$ 1,047.7	\$ 1,068.0
Share purchases (Note 8)	-	(3.3)	-	(12.0)
Balance at end of period	\$ 1,047.7	\$ 1,056.0	\$ 1,047.7	\$ 1,056.0
Contributed surplus and other equity				
Balance at beginning of period	\$ (74.5)	\$ (74.5)	\$ (74.5)	\$ 31.9
Forward purchase liabilities related to acquisitions (Note 12)	-	-	-	(106.4)
Balance at end of period	\$ (74.5)	\$ (74.5)	\$ (74.5)	\$ (74.5)
Retained earnings				
Balance at beginning of period	\$ 266.8	\$ 264.9	\$ 257.7	\$ 260.1
Net income attributable to equity shareholders of the Company	36.0	11.1	62.0	40.4
Defined benefit pension plan actuarial gains (losses), net of tax	(29.3)	14.2	(45.2)	12.1
Share purchases (Note 8)	-	(6.6)	-	(27.2)
Acquisition of non-controlling interests (Note 8)	(3.5)	(0.5)	(4.5)	(2.3)
Balance at end of period	\$ 270.0	\$ 283.1	\$ 270.0	\$ 283.1
Accumulated foreign exchange translation differences				
Balance at beginning of period	\$ 75.5	\$ 61.5	\$ 100.0	\$ 27.2
Foreign exchange translation differences for foreign operations, net of tax	(0.8)	(6.2)	(25.3)	28.1
Balance at end of period	\$ 74.7	\$ 55.3	\$ 74.7	\$ 55.3
Total equity attributable to equity holders of the Company	\$ 1,317.9	\$ 1,319.9	\$ 1,317.9	\$ 1,319.9
Non-controlling interests				
Balance at beginning of period	\$ 303.3	\$ 311.3	\$ 296.8	\$ 250.4
Net income attributable to non-controlling interests	15.0	12.8	31.3	30.5
Defined benefit pension plan actuarial gains (losses) attributable to non-controlling interests, net of taxes	(4.3)	2.2	(6.0)	1.1
Distributions to non-controlling interests	(7.3)	(6.7)	(11.5)	(9.7)
Acquisition of non-controlling interests (Note 8)	(16.0)	(1.5)	(19.9)	(6.7)
Non-controlling interests arising on acquisitions (Note 12)	-	-	-	52.5
Balance at end of period	\$ 290.7	\$ 318.1	\$ 290.7	\$ 318.1
Total equity	\$ 1,608.6	\$ 1,638.0	\$ 1,608.6	\$ 1,638.0

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

Canfor Corporation

Condensed Consolidated Statements of Cash Flows

	3 months ended June 30,		6 months ended June 30,	
(millions of Canadian dollars, unaudited)	2016	2015	2016	2015
Cash generated from (used in):				
Operating activities				
Net income	\$ 51.0	\$ 23.9	\$ 93.3	\$ 70.9
Items not affecting cash:				
Amortization	57.5	52.2	118.1	101.5
Income tax expense	14.1	4.1	24.1	18.3
Long-term portion of deferred reforestation obligations	(7.6)	(10.4)	4.2	2.0
Foreign exchange gain on long-term debt	(0.4)	-	(8.3)	-
Changes in mark-to-market value of derivative financial instruments	(3.6)	(18.7)	(3.4)	0.4
Employee future benefits	3.2	3.7	6.4	7.4
Finance expense, net	8.4	5.6	16.6	10.9
Gain on legal settlement, net (Note 11)	(15.5)	-	(15.5)	-
Equity income	(1.1)	-	(2.2)	-
Other, net	(3.3)	(2.6)	(2.9)	-
Defined benefit pension plan contributions, net	(5.2)	(5.5)	(10.4)	(2.5)
Income taxes paid, net	(3.0)	(12.1)	(16.6)	(34.1)
	94.5	40.2	203.4	174.8
Net change in non-cash working capital (Note 9)	128.8	86.3	70.8	(14.9)
	223.3	126.5	274.2	159.9
Financing activities				
Change in operating bank loans (Note 4)	(76.0)	(41.0)	(29.0)	74.0
Finance expenses paid	(6.9)	(3.0)	(11.0)	(5.6)
Share purchases (Note 8)	-	(13.2)	-	(39.2)
Acquisition of non-controlling interests (Note 8)	(19.4)	(7.3)	(24.4)	(9.0)
Cash distributions paid to non-controlling interests	(7.3)	(6.7)	(11.5)	(9.7)
	(109.6)	(71.2)	(75.9)	10.5
Investing activities				
Additions to property, plant and equipment and intangible assets, net	(66.2)	(49.4)	(113.3)	(95.2)
Acquisitions (Note 12)	(19.7)	(66.4)	(19.7)	(139.5)
Change in restricted cash	-	-	-	50.2
Other, net	(2.7)	(9.3)	(1.1)	(8.2)
	(88.6)	(125.1)	(134.1)	(192.7)
Foreign exchange gain (loss) on cash and cash equivalents	(0.3)	(0.5)	(4.2)	7.9
Increase (decrease) in cash and cash equivalents*	24.8	(70.3)	60.0	(14.4)
Cash and cash equivalents at beginning of period*	132.7	214.2	97.5	158.3
Cash and cash equivalents at end of period*	\$ 157.5	\$ 143.9	\$ 157.5	\$ 143.9

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

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

Canfor Corporation

Notes to the Condensed Consolidated Financial Statements

Three and six months ended June 30, 2016 and 2015
(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, including Canfor Pulp Products Inc. (“CPPI”), hereinafter referred to as “Canfor” or “the Company.”

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

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

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

Accounting Standards Issued and Not Applied

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

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

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

2. Inventories

(millions of Canadian dollars, unaudited)	As at June 30, 2016	As at December 31, 2015
Logs	\$ 112.3	\$ 169.1
Finished products	284.7	285.4
Residual fibre	29.4	20.8
Processing materials and supplies	115.3	111.9
	\$ 541.7	\$ 587.2

The above inventory balances are stated after inventory write-downs from cost to net realizable value. Write-downs at June 30, 2016 totaled \$0.6 million (December 31, 2015 - \$0.5 million).

3. Long-Term Investments and Other

(millions of Canadian dollars, unaudited)	As at June 30, 2016	As at December 31, 2015
Investments	\$ 16.1	\$ 16.2
Conifex timber investment loan	-	30.5
Equity investment in Anthony EACOM Inc.	17.4	16.2
Lakeland Winton receivable	15.0	15.0
Other deposits, loans and advances	24.2	20.7
	\$ 72.7	\$ 98.6

On July 1, 2015, the Company sold its 33.3% investment in Lakeland Mills Ltd. and Winton Global Lumber Ltd. ("Lakeland Winton") for consideration of \$30.0 million and recorded a gain of \$7.0 million in Other Income. The first installment of \$15.0 million was received on July 1, 2015 and the second installment for \$15.0 million is scheduled to be received on July 1, 2017 and is recorded as a receivable under Long-Term Investments and Other.

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

As part of the acquisition of Anthony Forest Products Company (Note 12), Canfor acquired a 50% interest in Anthony EACOM Inc., which owns an I-joist facility located in Sault St. Marie, Ontario. Canfor's investment in Anthony EACOM Inc. is classified as a joint venture and is accounted for using the equity method of accounting. For the three months ended June 30, 2016, the Company's share of the joint venture's sales was \$6.4 million and net income was \$1.1 million, and for the six months ended June 30, 2016, the Company's share of the joint venture's sales was \$12.4 million and net income was \$2.2 million. At June 30, 2016, the carrying value of the equity investment is \$17.4 million (December 31, 2015 - \$16.2 million).

4. Operating Loans and Long-Term Debt

(a) Available Operating Loans

(millions of Canadian dollars, unaudited)	As at June 30, 2016	As at December 31, 2015
Canfor (excluding CPPI)		
Available Operating Loans:		
Operating loan facility	\$ 350.0	\$ 350.0
Facility for letters of credit	39.7	39.7
Total operating loan facility	389.7	389.7
Operating loan drawn	(129.0)	(158.0)
Letters of credit	(39.3)	(39.7)
Total available operating loan facility - Canfor	\$ 221.4	\$ 192.0
CPPI		
Available Operating Loans:		
Operating loan facility	\$ 110.0	\$ 110.0
Facility for letters of credit	-	20.0
Total operating loan facility	110.0	130.0
Letters of credit	(9.1)	(13.0)
Total available operating loan facility - CPPI	\$ 100.9	\$ 117.0
Consolidated:		
Total operating loan facility	\$ 499.7	\$ 519.7
Total available operating loan facility	\$ 322.3	\$ 309.0

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

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

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

Canfor (excluding CPPI) has a separate facility to cover letters of credit. At June 30, 2016, \$36.7 million of letters of credit are covered under this facility with the balance of \$2.6 million covered under Canfor's general operating loan facility.

CPPI had a separate facility to cover letters of credit, which expired on June 30, 2016 and was not extended. On June 30, 2016, the \$6.1 million of letters of credit covered under the expired facility were transferred to the general operating loan facility and combined with the \$3.0 million of letters of credit already outstanding under the general operating loan facility.

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

(b) Long-Term Debt

At June 30, 2016, the fair value of the Company's long-term debt is \$442.7 million (December 31, 2015 - \$448.1 million). The fair value was determined based on prevailing market rates for long-term debt with similar characteristics and risk profile.

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

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

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

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

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

5. Employee Future Benefits

For the three months ended June 30, 2016, defined benefit pension plan actuarial losses of \$45.4 million (before tax) were recognized in other comprehensive income (loss). The losses recorded in the second quarter of 2016 principally reflect a lower discount rate used to value the net defined benefit pension plan obligations offset by the return generated on plan assets. For the six months ended June 30, 2016, losses of \$69.2 million (before tax) were recognized in other comprehensive income (loss). For the three and six months ended June 30, 2015, the Company recognized before tax actuarial gains in other comprehensive income (loss) of \$22.2 million and \$17.9 million, respectively.

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

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

	Pension Benefit Plans	Other Benefit Plans
June 30, 2016	3.5 %	3.5 %
March 31, 2016	4.0%	4.0%
December 31, 2015	4.1%	4.1%
June 30, 2015	3.9%	3.9%
March 31, 2015	3.6%	3.6%
December 31, 2014	3.9%	3.9%

6. Financial Instruments

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

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

The three levels of the fair value hierarchy are:

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

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

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

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

(millions of Canadian dollars, unaudited)	Fair Value Hierarchy Level		As at June 30, 2016		As at December 31, 2015
Financial assets measured at fair value					
Investments - held for trading	Level 1	\$	12.1	\$	17.2
Derivative financial instruments - held for trading	Level 2		0.3		-
Investments - available-for-sale	Level 3		3.5		-
Royalty receivable - available for sale	Level 3		-		0.2
		\$	15.9	\$	17.4
Financial liabilities measured at fair value					
Derivative financial instruments - held for trading	Level 2	\$	1.7	\$	4.8
		\$	1.7	\$	4.8

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

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

At June 30, 2016, the fair value of derivative financial instruments is a net liability of \$1.4 million (December 31, 2015 - net liability of \$4.8 million). The fair value of these financial instruments was determined based on prevailing market rates for instruments with similar characteristics.

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

(millions of Canadian dollars, unaudited)	3 months ended June 30,		6 months ended June 30,	
	2016	2015	2016	2015
Foreign exchange collars and forward contracts	\$ -	\$ 9.5	\$ -	\$ (12.4)
Energy derivatives	0.9	3.0	(0.6)	0.4
Lumber futures	2.2	0.2	1.2	(2.1)
Interest rate swaps	-	-	0.1	(1.2)
Gain (loss) on derivative financial instruments	\$ 3.1	\$ 12.7	\$ 0.7	\$ (15.3)

7. Income Taxes

(millions of Canadian dollars, unaudited)	3 months ended June 30,		6 months ended June 30,	
	2016	2015	2016	2015
Current	\$ (6.1)	\$ 4.8	\$ (20.2)	\$ (16.5)
Deferred	(8.0)	(8.9)	(3.9)	(1.8)
Income tax expense	\$ (14.1)	\$ (4.1)	\$ (24.1)	\$ (18.3)

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 June 30,		6 months ended June 30,	
	2016	2015	2016	2015
Income tax expense at statutory rate				
2016 – 26.0% (2015 – 26.0%)	\$ (16.9)	\$ (7.3)	\$ (30.5)	\$ (23.2)
Add (deduct):				
Entities with different income tax rates and other tax adjustments	(1.3)	1.3	(0.2)	2.2
Non-taxable income related to non-controlling interests	3.7	1.1	5.0	2.1
Permanent difference from capital gains and other non-deductible items	0.4	0.8	1.6	0.6
Income tax expense	\$ (14.1)	\$ (4.1)	\$ (24.1)	\$ (18.3)

In addition to the amounts recorded to net income, a tax recovery of \$11.8 million was recorded to other comprehensive income (loss) for the three months ended June 30, 2016 (three months ended June 30, 2015 - tax expense of \$5.8 million) in relation to the actuarial gains (losses) on defined benefit employee compensation plans. For the six months ended June 30, 2016, the tax recovery was \$18.0 million (six months ended June 30, 2015 - tax expense of \$4.7 million).

Also included in other comprehensive income (loss) for the three months ended June 30, 2016 was a tax recovery of \$0.1 million related to foreign exchange differences on translation of investments in foreign operations (three months ended June 30, 2015 - tax recovery of \$0.6 million). For the six months ended June 30, 2016, the tax recovery was \$2.3 million (six months ended June 30, 2015 - tax expense of \$1.9 million).

8. Earnings Per Share and Normal Course Issuer Bid

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

	3 months ended June 30,		6 months ended June 30,	
	2016	2015	2016	2015
Weighted average number of common shares	132,804,573	133,973,484	132,804,573	134,562,720

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

Under a separate normal course issuer bid, CPPI purchased 1,839,831 common shares for \$19.5 million (an average of \$10.60 per common share) from non-controlling shareholders. At June 30 and July 26, 2016, Canfor's ownership interest in CPPI was 53.6%.

9. Net Change in Non-Cash Working Capital

(millions of Canadian dollars, unaudited)	3 months ended June 30,		6 months ended June 30,	
	2016	2015	2016	2015
Accounts receivable	\$ 14.0	\$ (8.2)	\$ (3.3)	\$ (47.1)
Inventories	111.4	106.2	50.6	9.3
Prepaid expenses and other assets	(12.6)	(16.8)	(17.6)	(29.6)
Accounts payable, accrued liabilities and current portion of deferred reforestation obligations	16.0	5.1	41.1	52.5
Net decrease (increase) in non-cash working capital	\$ 128.8	\$ 86.3	\$ 70.8	\$ (14.9)

10. Segment Information

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

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

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

(millions of Canadian dollars, unaudited)	Lumber	Pulp & Paper	Unallocated & Other	Elimination Adjustment	Consolidated
3 months ended June 30, 2016					
Sales to external customers	\$ 765.3	257.0	-	-	\$ 1,022.3
Sales to other segments	\$ 36.8	0.2	-	(37.0)	\$ -
Operating income (loss)	\$ 71.5	5.2	(7.1)	-	\$ 69.6
Amortization	\$ 39.4	16.9	1.2	-	\$ 57.5
Capital expenditures¹	\$ 45.7	18.6	1.9	-	\$ 66.2
3 months ended June 30, 2015					
Sales to external customers	\$ 676.0	276.4	-	-	\$ 952.4
Sales to other segments	\$ 36.7	-	-	(36.7)	\$ -
Operating income (loss)	\$ 5.1	20.9	(8.4)	-	\$ 17.6
Amortization	\$ 35.5	15.6	1.1	-	\$ 52.2
Capital expenditures ¹	\$ 34.3	12.7	2.4	-	\$ 49.4
6 months ended June 30, 2016					
Sales to external customers	\$ 1,537.9	552.3	-	-	\$ 2,090.2
Sales to other segments	\$ 81.0	0.2	-	(81.2)	\$ -
Operating income (loss)	\$ 104.9	44.3	(14.5)	-	\$ 134.7
Amortization	\$ 80.2	35.6	2.3	-	\$ 118.1
Capital expenditures¹	\$ 78.9	31.7	2.7	-	\$ 113.3
Identifiable assets	\$ 2,312.8	803.0	227.9	-	\$ 3,343.7
6 months ended June 30, 2015					
Sales to external customers	\$ 1,323.0	559.4	-	-	\$ 1,882.4
Sales to other segments	\$ 79.2	-	-	(79.2)	\$ -
Operating income (loss)	\$ 53.4	63.9	(16.0)	-	\$ 101.3
Amortization	\$ 67.7	31.5	2.3	-	\$ 101.5
Capital expenditures ¹	\$ 65.1	26.2	3.9	-	\$ 95.2
Identifiable assets	\$ 2,042.9	784.7	231.1	-	\$ 3,058.7

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

11. Houston Pellet Limited Partnership Settlement

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

12. Acquisitions

(a) US South

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

(millions of Canadian dollars, unaudited)			
Company	Ownership as at June 30, 2016	Acquisition Date	Consideration Paid to Date
Scotch & Gulf Lumber, LLC	50%	January 30, 2015	\$ 69.9
Beadles Lumber Company & Balfour Lumber Company Inc.	55%	January 2, 2015	51.6
Southern Lumber Company Inc.	100%	April 1, 2015	65.6
Anthony Forest Products Company	100%	October 30, 2015	126.8
Total consideration paid to date			\$ 313.9

As a result of these acquisitions, Canfor acquired seven sawmills, two laminating facilities, two chip plants and one treating facility located in the US South, with facilities in Georgia, Alabama, Mississippi, Arkansas, Louisiana and Texas. In addition, Canfor acquired a 50% interest in an I-joist facility located in Ontario, Canada. The acquisitions of Scotch & Gulf Lumber, LLC ("Scotch Gulf") and Beadles Lumber Company & Balfour Lumber Company Inc. ("Beadles & Balfour") are phased acquisitions and will be 100% owned in July 2016 and January 2017, respectively. Canfor has recorded a forward purchase liability of \$71.5 million for the final step of the Scotch Gulf phased acquisition and \$40.4 million for the final step of the Beadles & Balfour phased acquisition. Canfor calculated the non-controlling interest related to Scotch Gulf and Beadles & Balfour as the non-controlling share of the fair value of the net identifiable assets at the acquisition date for each of Scotch Gulf and Beadles & Balfour. All of the acquisitions were accounted for in accordance with IFRS 3, *Business Combinations*.

(b) Wynndel Box and Lumber Ltd.

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

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

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

(millions of Canadian dollars, unaudited)

Total consideration		
Cash consideration paid	\$	19.7
Consideration payable		20.6
Total consideration	\$	40.3

(millions of Canadian dollars, unaudited)

Recognized amounts of identifiable assets acquired and liabilities assumed		
Land	\$	1.1
Buildings, equipment and mobile		22.1
Timber		9.7
Non-cash working capital, net		8.7
Total net identifiable assets	\$	41.6
Deferred tax liability, net		(1.3)
Total consideration	\$	40.3

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