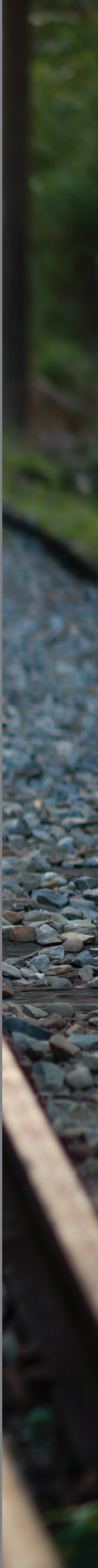
2015

CANFOR CORPORATION

QUARTER TWO INTERIM REPORT

FOR THE THREE MONTHS ENDED JUNE 30, 2015



CANFOR

To Our Shareholders

Canfor Corporation ("CFP") reported net income attributable to shareholders ("shareholder net income") of $11.1 million, or $0.08 per share, for the second quarter of 2015, compared to $29.3 million, or $0.22 per share, for the first quarter of 2015 and $54.3 million, or $0.39 per share, for the second quarter of 2014. For the six months ended June 30, 2015, the Company's shareholder net income was $40.4 million, or $0.30 per share, compared to shareholder net income of $99.8 million, or $0.72 per share, reported for the first half of 2014.

The following table summarizes selected financial information for the Company for the comparative periods:

(millions of Canadian dollars, except per share amounts)	Q2 2015	Q1 2015	YTD 2015	Q2 2014	YTD 2014
Sales	**$ 952.4**	$ 930.0	**$ 1,882.4**	$ 907.3	$ 1,649.2
Operating income before amortization	**$ 69.8**	$ 133.0	**$ 202.8**	$ 141.3	$ 270.2
Operating income	**$ 17.6**	$ 83.7	**$ 101.3**	$ 97.3	$ 181.7
Net income attributable to equity shareholders of the Company	**$ 11.1**	$ 29.3	**$ 40.4**	$ 54.3	$ 99.8
Net income per share attributable to equity shareholders of the Company, basic and diluted	**$ 0.08**	$ 0.22	**$ 0.30**	$ 0.39	$ 0.72
Adjusted shareholder net income (loss)	**$ (2.0)**	$ 46.5	**$ 44.5**	$ 56.7	$ 103.1
Adjusted shareholder net income (loss) per share, basic and diluted	**$ (0.02)**	$ 0.35	**$ 0.33**	$ 0.41	$ 0.74

After adjusting for items affecting comparability with the prior periods, the Company's adjusted shareholder net loss for the second quarter of 2015 was $2.0 million, or $0.02 per share, compared to an adjusted shareholder net income of $46.5 million, or $0.35 per share, for the first quarter of 2015. Canfor's adjusted shareholder net income for the second quarter of 2014 was $56.7 million, or $0.41 per share.

The Company reported operating income of $17.6 million for the second quarter of 2015, down $66.1 million compared to operating income of $83.7 million for the first quarter of 2015, with the decline reflecting lower operating earnings in both the lumber and pulp and paper segments. Lumber segment results were impacted by a decline in benchmark lumber prices, an average export tax of 7% on Canadian lumber shipments to the US and a slightly stronger Canadian dollar. These factors outweighed an increase in lumber shipments in the current quarter and the continued positive impact from the Company's expanded presence in the US South, including the recent acquisition of Southern Lumber Inc. ("Southern Lumber") on April 1, 2015. Pulp and paper segment results were also lower than the previous quarter, principally due to scheduled maintenance outages in the current quarter and lower unit sales realizations in all regions.

The decline in Western Spruce/Pine/Fir ("SPF") lumber prices seen in the first quarter of the year continued into the second quarter with the average benchmark Western SPF 2x4 #2&Btr price decreasing by US$89 per Mfbm, or 26%, from the beginning of the year through the end of May. In June, Western SPF prices picked up as North American demand improved and various production curtailments in the industry took effect. Southern Yellow Pine ("SYP") East lumber prices have also declined since the beginning of the year but at a more gradual pace than the Western SPF benchmark. US housing starts in the current quarter averaged 1,144,000 units SAAR (seasonally adjusted annual rate), up 17% from the previous quarter, which in part reflected an increase in construction activity from the first quarter when home building levels were hampered by challenging weather. In Canada, housing starts averaged 193,000 units SAAR in the current quarter, up 9% from the previous quarter. Lumber offshore markets were steady in the current quarter with prices holding up relatively well compared to North America.

Lower lumber unit sales realizations in the current quarter compared to the first quarter of 2015 reflected weaker North American benchmark prices for both Western SPF and SYP dimension products, and, to a lesser extent, a 1% stronger Canadian dollar. Lumber price declines were most pronounced for narrow widths, as evidenced by the quarter-over-quarter decreases of US$38 per Mfbm, or 12%, and US$30 per Mfbm, or 7%, for the Western SPF 2x4 #2&Btr and SYP East 2x4 #2 products, respectively. Overall wide dimension and most lower grade lumber products saw more modest price declines compared to the previous quarter. Unit sales realizations in the US South in the current quarter benefited from a higher-value sales mix, resulting from the Company's recent acquisitions. Canfor's offshore lumber sales realizations held up relatively well compared to North American sales realizations, in part reflecting a more diverse product offering to offshore markets as well as the nature of pricing, much of which is negotiated monthly or quarterly in advance.

Lumber shipments at just under 1.4 billion board feet were up 17% from the previous quarter reflecting strong shipments offshore in the current quarter as well as incremental SYP volume from the Company's recent acquisitions. Lumber production at almost 1.3 billion board feet was up 5% from the previous quarter due primarily to the Company's recent growth in the US South. Overall lumber unit manufacturing costs decreased slightly compared to the previous quarter, reflecting productivity gains and stable log costs.

Global softwood pulp markets remained relatively balanced through the second quarter of 2015, supported by solid global softwood pulp demand and the industry's seasonal spring maintenance period. The average Northern Bleached Softwood Kraft ("NBSK") pulp list price to North America, as published by RISI, was stable through the quarter, remaining unchanged from March 2015 at US$980 per tonne, and down US$15 per tonne, or 2%, compared to the average in the previous quarter. Overall, NBSK pulp unit sales realizations were down compared to the previous quarter, reflecting lower pricing in all regions, and, to a lesser extent, the impact of the slightly stronger Canadian dollar and increased shipments to lower-margin regions. Bleached Chemi-Thermo Mechanical Pulp ("BCTMP") markets were challenging in the second quarter, with the Company seeing a modest decline in unit sales realizations compared to the first quarter of 2015.

Pulp shipments were slightly higher than the previous quarter reflecting a marginal increase in NBSK pulp shipments, principally to China, in part due to the traditional Chinese Lunar New Year holiday impacting shipments in the first quarter. Pulp production levels were down 4% reflecting scheduled maintenance outages at the Company's Intercontinental and Prince George Pulp Mills, which reduced market pulp production by approximately 11,000 tonnes. In the current quarter, there was also a scheduled maintenance outage at the Taylor Pulp Mill, which reduced market pulp production by approximately 3,000 tonnes. Pulp unit manufacturing costs in the second quarter of 2015 were up compared to the first quarter of 2015, largely reflecting these maintenance outages, offset somewhat by seasonally lower energy prices and usage.

The North American lumber market is forecast to continue to improve at a modest pace through the third quarter of 2015, with further improvements projected through the fall. Offshore markets are forecast to be relatively stable in the third quarter of 2015. With reported global softwood pulp inventories at the high end of the balanced range heading into the seasonally slower summer period, there is some risk of downward pressure on global softwood pulp prices in the third quarter of 2015. Both the lumber and pulp and paper segments are forecast to benefit from a weakening of the Canadian dollar in the third quarter of 2015.

Michael J. Korenberg
Chairman

Don B. Kayne
President and Chief Executive Officer

Canfor Corporation
Second 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 June 30, 2015 relative to the quarters ended March 31, 2015 and June 30, 2014, and the financial position of the Company at June 30, 2015. It should be read in conjunction with Canfor's unaudited interim consolidated financial statements and accompanying notes for the quarters ended June 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). 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 and 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.

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 July 21, 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.

SECOND QUARTER 2015 OVERVIEW

Selected Financial Information and Statistics

(millions of Canadian dollars, except per share amounts)	Q2 2015	Q1 2015	YTD 2015	Q2 2014	YTD 2014
Operating income (loss) by segment:					
Lumber	**$ 5.1**	$ 48.3	**$ 53.4**	$ 74.1	$ 130.5
Pulp and Paper	**$ 20.9**	$ 43.0	**$ 63.9**	$ 30.9	$ 67.4
Unallocated and Other	**$ (8.4)**	$ (7.6)	**$ (16.0)**	$ (7.7)	$ (16.2)
Total operating income	**$ 17.6**	$ 83.7	**$ 101.3**	$ 97.3	$ 181.7
Add: Amortization	**$ 52.2**	$ 49.3	**$ 101.5**	$ 44.0	$ 88.5
Total operating income before amortization[1]	**$ 69.8**	$ 133.0	**$ 202.8**	$ 141.3	$ 270.2
Add (deduct):					
Working capital movements	**$ 86.3**	$ (101.2)	**$ (14.9)**	$ 92.8	$ (85.0)
Defined benefit plan withdrawals (contributions), net	**$ (5.5)**	$ 3.0	**$ (2.5)**	$ (5.9)	$ (19.4)
Income taxes paid, net	**$ (12.1)**	$ (22.0)	**$ (34.1)**	$ (9.5)	$ (21.3)
Other operating cash flows, net[2]	**$ (12.5)**	$ 29.0	**$ 16.5**	$ (12.4)	$ 11.7
Cash from operating activities	**$ 126.0**	$ 41.8	**$ 167.8**	$ 206.3	$ 156.2
Add (deduct):					
Finance expenses paid	**$ (3.0)**	$ (2.6)	**$ (5.6)**	$ (2.6)	$ (5.4)
Share purchases	**$ (13.2)**	$ (26.0)	**$ (39.2)**	$ (105.7)	$ (107.7)
Distributions paid to non-controlling interests	**$ (6.7)**	$ (3.0)	**$ (9.7)**	$ (2.9)	$ (5.0)
Capital additions, net	**$ (49.4)**	$ (45.8)	**$ (95.2)**	$ (63.0)	$ (116.1)
Acquisition of Southern Lumber	**$ (65.6)**	$ -	**$ (65.6)**	$ -	$ -
Acquisition of Beadles & Balfour	**$ (0.8)**	$ (50.8)	**$ (51.6)**	$ -	$ -
Change in restricted cash[3]	**$ -**	$ 50.2	**$ 50.2**	$ -	$ -
Acquisition of Scotch Gulf	**$ -**	$ (22.3)	**$ (22.3)**	$ -	$ -
Proceeds from the sale of Daaquam Sawmill	**$ -**	$ -	**$ -**	$ 22.9	$ 22.9
Repayment from Scotch Gulf	**$ -**	$ 4.1	**$ 4.1**	$ 2.1	$ 4.7
Other, net	**$ (16.6)**	$ (4.7)	**$ (21.3)**	$ 1.7	$ 0.8
Change in cash / operating loans	**$ (29.3)**	$ (59.1)	**$ (88.4)**	$ 58.8	$ (49.6)
ROIC – Consolidated period-to-date[4]	**0.1%**	2.8%	**2.9%**	3.7%	7.2%
Average exchange rate (US$ per C$1.00)[5]	**$ 0.813**	$ 0.806	**$ 0.810**	$ 0.917	$ 0.912

[1] Amortization includes amortization of certain capitalized major maintenance costs.
[2] Further information on operating cash flows can be found in the Company's unaudited interim consolidated financial statements.
[3] 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.
[4] 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.
[5] Source – Bank of Canada (average noon rate for the period).

Analysis of Specific Material Items Affecting Comparability of Shareholder Net Income

After-tax impact, net of non-controlling interests (millions of Canadian dollars, except per share amounts)	Q2 2015	Q1 2015	YTD 2015	Q2 2014	YTD 2014
Shareholder net income, as reported	**$ 11.1**	$ 29.3	**$ 40.4**	$ 54.3	$ 99.8
(Gain) loss on derivative financial instruments[6]	**$ (7.7)**	$ 17.2	**$ 9.5**	$ (2.1)	$ -
Mark-to-market gain on investment in Lakeland Mills Ltd. and Winton Global Lumber Ltd.[7]	**$ (6.1)**	$ -	**$ (6.1)**	$ -	$ -
Mark-to-market loss on Taylor Pulp contingent consideration, net[8]	**$ 0.7**	$ -	**$ 0.7**	$ -	$ -
Mark-to-market adjustment to Canfor-LP OSB sale contingent consideration[9]	**$ -**	$ -	**$ -**	$ 4.5	$ 4.9
Gain on sale of Daaquam Sawmill	**$ -**	$ -	**$ -**	$ -	$ (1.6)
Net impact of above items	**$ (13.1)**	$ 17.2	**$ 4.1**	$ 2.4	$ 3.3
Adjusted shareholder net income (loss)	**$ (2.0)**	$ 46.5	**$ 44.5**	$ 56.7	$ 103.1
Shareholder net income per share (EPS), as reported	**$ 0.08**	$ 0.22	**$ 0.30**	$ 0.39	$ 0.72
Net impact of above items per share[10]	**$ (0.10)**	$ 0.13	**$ 0.03**	$ 0.02	$ 0.02
Adjusted shareholder net income (loss) per share[10]	**$ (0.02)**	$ 0.35	**$ 0.33**	$ 0.41	$ 0.74

[6] 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 or EPS, as reported.
[7] On July 1, 2015, Canfor sold its 33.3% interest in Lakeland Mills Ltd. and Winton Global Lumber Ltd. for $30.0 million. At June 30, 2015, Canfor's investment was recorded at fair value and $7.0 million mark-to-market gain (before-tax) was recognized.
[8] 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.
[9] 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 June 30, 2015 is nil.
[10] 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 $17.6 million for the second quarter of 2015, down $66.1 million compared to operating income of $83.7 million for the first quarter of 2015, with the decline reflecting lower operating earnings in both the lumber and pulp and paper segments. Lumber segment results were impacted by a decline in benchmark lumber prices, an average export tax of 7% on Canadian lumber shipments to the US and a slightly stronger Canadian dollar. These factors outweighed an increase in lumber shipments in the current quarter and the continued positive impact from the Company's expanded presence in the US South, including the recent acquisition of Southern Lumber Inc. ("Southern Lumber") on April 1, 2015. Pulp and paper segment results were also lower than the previous quarter, principally due to scheduled maintenance outages in the current quarter and lower unit sales realizations in all regions.

The decline in Western Spruce/Pine/Fir ("SPF") lumber prices seen in the first quarter of the year continued into the second quarter with the average benchmark Western SPF 2x4 #2&Btr price decreasing by US$89 per Mfbm, or 26%, from the beginning of the year through the end of May. In June, Western SPF prices picked up as North American demand improved and various production curtailments in the industry took effect. Southern Yellow Pine ("SYP") East lumber prices have also declined since the beginning of the year but at a more gradual pace than the Western SPF benchmark. US housing starts in the current quarter averaged 1,144,000 units SAAR (seasonally adjusted annual rate), up 17% from the previous quarter, which in part reflected an increase in construction activity from the first quarter when home building levels were hampered by challenging weather. In Canada, housing starts averaged 193,000 units SAAR in the current quarter, up 9% from the previous quarter. Lumber offshore markets were steady in the current quarter with prices holding up relatively well compared to North America.

Lower lumber unit sales realizations in the current quarter compared to the first quarter of 2015 reflected weaker North American benchmark prices for both Western SPF and SYP dimension products, and, to a lesser extent, a 1% stronger Canadian dollar. Lumber price declines were most pronounced for narrow widths, as evidenced by the quarter-over-quarter decreases of US$38 per Mfbm, or 12%, and US$30 per Mfbm, or 7%, for the Western SPF 2x4 #2&Btr and SYP East 2x4 #2 products, respectively. Overall wide dimension and most lower grade lumber products saw more modest price declines compared to the previous quarter. Unit sales realizations in the US South in the current quarter benefited from a higher-value sales mix, resulting from the Company's recent acquisitions. Canfor's offshore lumber sales realizations held up relatively well compared to North American sales realizations, in part reflecting a more diverse product offering to offshore markets as well as the nature of pricing, much of which is negotiated monthly or quarterly in advance.

Lumber shipments at just under 1.4 billion board feet were up 17% from the previous quarter reflecting strong shipments offshore in the current quarter as well as incremental SYP volume from the Company's recent acquisitions. Lumber production at almost 1.3 billion board feet was up 5% from the previous quarter due primarily to the Company's recent growth in the US South. Overall lumber unit manufacturing costs decreased slightly compared to the previous quarter, reflecting productivity gains and stable log costs.

Global softwood pulp markets remained relatively balanced through the second quarter of 2015, supported by solid global softwood pulp demand and the industry's seasonal spring maintenance period. The average Northern Bleached Softwood Kraft ("NBSK") pulp list price to North America, as published by RISI, was stable through the quarter, remaining unchanged from March 2015 at US$980 per tonne, and down US$15 per tonne, or 2%, compared to the average in the previous quarter. Overall, NBSK pulp unit sales realizations were down compared to the previous quarter, reflecting lower pricing in all regions, and, to a lesser extent, the impact of the slightly stronger Canadian dollar and increased shipments to lower-margin regions. Bleached Chemi-Thermo Mechanical Pulp ("BCTMP") markets were challenging in the second quarter, with the Company seeing a modest decline in unit sales realizations compared to the first quarter of 2015.

Pulp shipments were slightly higher than the previous quarter reflecting a marginal increase in NBSK pulp shipments, principally to China, in part due to the traditional Chinese Lunar New Year holiday impacting shipments in the first quarter. Pulp production levels were down 4% reflecting scheduled maintenance outages at the Company's Intercontinental and Prince George Pulp Mills, which reduced market pulp production by approximately 11,000 tonnes. In the current quarter, there was also a scheduled maintenance outage at the Taylor Pulp Mill, which reduced market pulp production by approximately 3,000 tonnes. Pulp unit manufacturing costs in the second quarter of 2015 were up compared to the first quarter of 2015, largely reflecting these maintenance outages, offset somewhat by seasonally lower energy prices and usage.

Compared to the second quarter of 2014, operating income was down $79.7 million, reflecting a $69.0 million decrease in the lumber segment and a $10.0 million decrease in the pulp and paper segment. In the lumber segment, the decline in operating earnings largely reflected lower lumber prices, a 7% average export tax in the current quarter and market-driven log cost pressures in Western Canada through the back half of 2014 and into 2015 partly offset by a 10 cent, or 11%, weaker Canadian dollar and the additions of the aforementioned high margin operations in the US South. Lumber production and shipments were well up from the same quarter in the prior year reflecting the US South acquisitions and an increase in lumber productivity, partly resulting from major capital upgrades completed in recent years. Lower operating earnings in the pulp and paper segment compared to the second quarter of 2014 were due largely to lower unit NBSK pulp US dollar sales realizations and challenging BCTMP markets in the current period which more than offset the benefit of the weaker Canadian dollar. Slightly higher unit manufacturing costs in the pulp and paper segment in the current quarter were in part the result of market-driven increases in fibre costs coupled with costs associated with the scheduled maintenance outages in the current quarter.

OPERATING RESULTS BY BUSINESS SEGMENT

Lumber

Selected Financial Information and Statistics – Lumber

(millions of Canadian dollars, unless otherwise noted)	Q2 2015	Q1 2015	YTD 2015	Q2 2014	YTD 2014
Sales	**$ 676.0**	$ 647.0	**$ 1,323.0**	$ 614.5	$ 1,110.2
Operating income before amortization	**$ 40.6**	$ 80.5	**$ 121.1**	$ 102.2	$ 186.5
Operating income	**$ 5.1**	$ 48.3	**$ 53.4**	$ 74.1	$ 130.5
Average SPF 2x4 #2&Btr lumber price in US$[11]	**$ 270**	$ 308	**$ 289**	$ 335	$ 351
Average SPF price in Cdn$[11]	**$ 332**	$ 382	**$ 357**	$ 365	$ 385
Average SYP 2x4 #2 lumber price in US$[12]	**$ 383**	$ 413	**$ 398**	$ 405	$ 404
Average SYP price in Cdn$[12]	**$ 471**	$ 513	**$ 492**	$ 442	$ 443
U.S. housing starts (thousand units SAAR)[13]	**1,144**	978	**1,061**	984	953
Production – SPF lumber (MMfbm)[14]	**961.0**	966.0	**1,927.0**	930.2	1,908.3
Production – SYP lumber (MMfbm)[14, 15]	**304.9**	234.5	**539.4**	151.5	290.6
Shipments – SPF lumber (MMfbm)[16]	**1,046.1**	930.6	**1,976.7**	1,062.6	1,842.0
Shipments – SYP lumber (MMfbm)[15, 16]	**315.6**	236.4	**552.0**	168.4	311.6
Shipments – wholesale lumber (MMfbm)	**4.8**	5.4	**10.2**	5.4	10.2

[11] 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.

[12] 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.

[13] Source – U.S. Census Bureau, seasonally adjusted annual rate ("SAAR").

[14] Excluding production of trim blocks. Production in prior periods has been restated from sawmill production to finished lumber production.

[15] 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.

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

Overview

Operating income for the lumber segment was $5.1 million for the second quarter of 2015, a decrease of $43.2 million compared to operating income of $48.3 million in the previous quarter, and down $69.0 million compared to operating income of $74.1 million reported in the same quarter of the prior year. A decline in overall lumber unit sales realizations principally driven by lower lumber prices, export taxes of 5% in April, 5% in May and 10% in June on lumber sold to the US and a slightly stronger Canadian dollar, unfavourably impacted results compared to the previous quarter. Western SPF unit lumber sales realizations were down significantly due to the aforementioned factors; however, SYP and offshore unit lumber sales realizations fared better quarter-over-quarter. Despite weak North American lumber markets, lumber production and shipments were well up from the previous quarter reflecting the Company's recent acquisitions in the US South, improved lumber productivity across all regions and strong shipments to offshore markets in the current quarter. Unit manufacturing costs decreased slightly compared to the previous quarter with slightly lower conversion costs and relatively stable log costs in the current quarter.

Compared to the second quarter of 2014, the decline in operating income in the lumber segment for the most part reflected lower lumber sales realizations and market-driven log cost pressure in Western Canada throughout 2014 and into the beginning of 2015, partly offset by the 11% weaker Canadian dollar and the Company's growth in the US South. Total lumber shipments and production were well up from the same quarter in the prior year due to the recent US South acquisitions, improved lumber productivity and capital related downtime and ramp-ups occurring in the second quarter of 2014.

Markets

The decline in Western SPF lumber prices seen in the first quarter of 2015 continued into the second quarter with the average North American Random Length Western SPF 2x4 #2&Btr price down US$38 per Mfbm, or 12%, to US$270 per Mfbm in the second quarter, the lowest level since 2012. Western SPF lumber prices rallied somewhat in June as supply to the North American lumber market rebalanced with production curtailments announced by several major producers and increased shipments to key Asian markets. Total US housing starts averaged 1,144,000 units[17] SAAR (seasonally adjusted annual rate) for the second quarter of 2015, up 17% from the first quarter of 2015 and up 16% from the same period in 2014. Single-family starts, which consume a higher proportion of lumber, were up 9% compared to the first quarter of 2015 to 704,000 units[17] SAAR in the current quarter. The improvement in US housing starts in the second quarter of 2015 in part reflects a make-up of construction activity from earlier in the year when home building was hampered by challenging winter weather.

In Canada, housing starts averaged 193,000 units[18] SAAR, up 9% from the previous quarter and down 2% from the same period in 2014.

Lumber offshore markets were balanced in the quarter as lower interest rates and reduced minimum mortgage down payments in China encouraged home sales. Lumber shipments to offshore markets during the quarter relieved supply and downward price pressure in the North American market.

Sales

Sales for the lumber segment in the second quarter of 2015 were $676.0 million, compared to $647.0 million in the previous quarter and $614.5 million in the second quarter of 2014. Higher lumber sales revenues compared to the first quarter of 2015 reflected strong lumber shipments offset in part by lower lumber sales realizations as benchmark lumber prices trended lower during the quarter.

Total lumber shipments in the second quarter of 2015, at almost 1.4 billion board feet, were up 17% from the previous quarter, largely reflecting strong offshore shipments in the current quarter as well as incremental SYP volume related to the acquisition of Southern Lumber on April 1, 2015, a full quarter of consolidated lumber shipments from Scotch Gulf and overall improved productivity rates in all regions. The Company's shipments were bolstered by record lumber sales to China reflecting solid demand and a more diverse product offering to the offshore market in the current quarter while offshore shipments in the previous quarter were impacted by the US West Coast port strike and, to a lesser degree, the Chinese Lunar New Year. Compared to the second quarter of 2014, lumber shipments were up 11%, again largely reflecting the Company's growth in the US South, which more than offset lower quarter-over-quarter Western SPF lumber shipments stemming from a higher drawdown of inventories in the comparative quarter, following weather-related transportation challenges and a truckers' strike at the Vancouver port in the first quarter of 2014.

Western SPF lumber sales realizations were down significantly compared to the previous quarter, in large part reflecting lower North American lumber prices, export taxes of 5% in April, 5% in May and 10% in June on shipments to the US and, to a lesser degree, the unfavourable impact of the 1 cent, or 1%, stronger Canadian dollar. The benchmark North American Random Lengths Western SPF 2x4 #2&Btr price saw a 12% decline quarter-over-quarter, down US$38 per Mfbm to US$270 per Mfbm, with less pronounced declines in wide dimensions and lower grade products. The Company's offshore lumber sales realizations held up relatively well compared to North America in part due to a more diverse product offering to the offshore market as well as the nature of offshore pricing much of which is negotiated monthly or quarterly in advance.

Despite declines in SYP benchmark prices through the quarter, overall SYP sales realizations were relatively stable reflecting less pronounced declines in wide dimension SYP products and the contribution of a higher value product mix from Southern Lumber and incremental higher value lumber volume from the other recently acquired US South operations. The average Random Lengths SYP 2x4 #2 price was down US$30 per Mfbm, or 7%, from the first quarter of 2015.

Compared to the second quarter of 2014, lumber sales realizations were moderately lower in large part due to lower benchmark lumber prices and an average export tax of 7% on shipments to the US in the current quarter partly offset by the favourable impact of the 10 cent, or 11%, weaker Canadian dollar and the benefits of a higher value lumber sales mix as a result of the recent US South acquisitions. The average benchmark North American Random Lengths Western SPF 2x4 #2&Btr price was down US$65 per Mfbm, or 19%, to US$270 per Mfbm in the second quarter of 2015 leading to lower North American Western SPF sales realizations compared to the same quarter in 2014. Offshore sales realizations, while more stable, also declined modestly from the same quarter in the prior year. Overall sales realizations for SYP products were slightly lower compared to the same period in 2014, with the favourable impact of the aforementioned higher value sales mix from the recently acquired US South operations mostly offsetting a US$22 per Mfbm, or 5%, lower average Random Lengths SYP 2x4 #2 price.

Total residual fibre revenue in the current quarter was higher than both comparable periods largely due to additional chip sales volume from the recently acquired US South operations. Current quarter results also reflected seasonally lower log sales compared to the previous quarter due to reduced timber harvesting during the spring break-up period in Western Canada.

[17] U.S. Census Bureau
[18] CMHC – Canada Mortgage and Housing Corporation

Operations

Lumber production, at just under 1.3 billion board feet, was up 5% from the previous quarter in large part due to the Company's recent growth in the US South and quarter-over-quarter productivity improvements which more than offset fewer operating hours at the Western SPF operations in the quarter which partly reflected a rebuild at the Company's Polar sawmill. SYP lumber production in the second quarter of 2015 included production from Southern Lumber and represented the first full quarter with consolidated lumber production from Scotch Gulf. In addition, SYP production benefited from favourable log size and productivity improvements at several operations. Western SPF production was relatively stable compared to the previous quarter as productivity improvements were offset by fewer operating hours compared to the previous quarter in part due to the aforementioned capital upgrade. The severe forest fire season in Western Canada had minimal impacts on Canfor's operations in the current quarter; however should the hot and dry weather continue through the summer months there may be increased risk to the Company's fibre availability.

Compared to the second quarter of 2014, lumber production was up 17% largely reflecting incremental production from the acquisitions of Scotch Gulf, Beadles & Balfour and Southern Lumber. Excluding lumber production related to these acquisitions, lumber production was up 4%, principally reflecting improved productivity following several capital upgrades in the second quarter of 2014.

Overall, unit manufacturing costs were slightly lower than the previous quarter with a small decrease in unit cash conversion costs and relatively stable log costs in the current quarter. Lower cash conversion costs principally reflected improved productivity rates and seasonally lower energy costs compared to the previous quarter.

Compared to the second quarter of 2014, unit manufacturing costs were moderately higher primarily due to higher unit log costs in Western Canada reflecting market-driven stumpage increases and upward pressure on logging, hauling and purchased wood costs, which more than offset the positive impact of productivity gains.

Pulp and Paper

Selected Financial Information and Statistics – Pulp and Paper[19]

(millions of Canadian dollars, unless otherwise noted)	**Q2 2015**	Q1 2015	**YTD 2015**	Q2 2014	YTD 2014
Sales	**$ 276.4**	$ 283.0	**$ 559.4**	$ 292.8	$ 539.0
Operating income before amortization[20]	**$ 36.5**	$ 58.9	**$ 95.4**	$ 46.6	$ 99.6
Operating income	**$ 20.9**	$ 43.0	**$ 63.9**	$ 30.9	$ 67.4
Average pulp price delivered to U.S. – US$[21]	**$ 980**	$ 995	**$ 988**	$ 1,030	$ 1,023
Average price in Cdn$[21]	**$ 1,205**	$ 1,235	**$ 1,220**	$ 1,123	$ 1,122
Production – pulp (000 mt)	**294.6**	308.2	**602.8**	288.7	599.1
Production – paper (000 mt)	**31.0**	35.4	**66.4**	35.4	72.1
Shipments – pulp (000 mt)	**291.9**	287.4	**579.3**	314.4	570.3
Shipments – paper (000 mt)	**33.8**	32.1	**65.9**	39.7	71.0

[19] 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.

[20] Amortization includes amortization of certain capitalized major maintenance costs.

[21] 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 $20.9 million for the second quarter of 2015, down $22.1 million from the previous quarter, and down $10.0 million from the second quarter of 2014.

The current quarter pulp and paper segment results included the impact of the scheduled maintenance outages at the Intercontinental and Prince George Pulp Mills and the Taylor Pulp Mill, which reduced market pulp production by approximately 11,000 tonnes and 3,000 tonnes, respectively. Decreased operating results compared to the previous quarter largely reflected higher unit manufacturing costs due to these outages as well as a modest decline in NBSK and BCTMP pulp sales realizations, driven by lower pricing to all regions, increased shipments to lower-margin regions and, to a lesser extent, the 1 cent, or 1%, stronger Canadian dollar. Operating income at the Company's paper operation was also lower reflecting the impact of a scheduled maintenance outage at the Company's paper machine and, to a lesser extent, a marginal decrease in unit sales realizations.

Compared to the second quarter of 2014, lower pulp and paper segment results were impacted by lower earnings from the pulp operations partly offset by increased earnings generated by the paper operation. The benefit of the

11% weaker Canadian dollar and higher pulp production volumes were more than offset by lower US dollar pulp list prices to all regions and higher unit NBSK pulp manufacturing costs. Higher unit NBSK pulp manufacturing costs reflected a largely market-driven increase in fibre costs as well as costs associated with the scheduled maintenance outages in the current quarter. Results at the Company's paper operation benefitted from improved unit sales realizations, which more than offset lower shipments and higher unit manufacturing costs reflecting the impact of the scheduled maintenance outage in the current quarter, which was five days longer than the outage in the same period in 2014.

Markets

Global softwood pulp markets remained relatively balanced through the second quarter of 2015, with increased shipments to China offset in part by declines to North America and Europe. Global softwood pulp producer inventory levels tightened through the quarter, decreasing 3 days from the end of March 2015 to 30 days' supply in May 2015[22] (latest available data), partly reflecting supply constraints due to seasonal maintenance downtime, as inventory levels ended the quarter at the high end of the balanced range (market conditions are generally considered balanced when inventories are in the 27-30 days of supply range).

Global shipments of bleached softwood kraft pulp improved modestly compared to the previous quarter and were broadly in line with the same period in 2014[23]. The increase in softwood pulp shipments compared to the previous quarter in part reflected increased shipments to Asia.

Sales

The Company's pulp shipments in the second quarter of 2015 totalled 291,900 tonnes, an increase of 4,500 tonnes, or 2%, from the previous quarter, reflecting a marginal increase in NBSK pulp shipments with higher volumes shipped to China, in part due to the traditional Chinese Lunar New Year holiday in the previous quarter, partially offset by reduced shipments to North America. Compared to the same period in 2014, pulp shipments were down 22,500 tonnes, or 7%, due to a reduction in NBSK pulp shipments, with higher NBSK pulp demand in North America partially offset by reduced shipments to Asia. Paper shipments in the second quarter of 2015 were 33,800 tonnes, up 1,700 tonnes, or 5%, from the previous quarter and down 5,900 tonnes, or 15%, from the same period of the previous year. The increased shipments compared to the previous quarter were principally due to higher demand from North America while demand to most other regions was relatively stable. Compared to the second quarter of 2014, the lower paper shipments in part reflected the drawdown to normal inventory levels in that quarter following the transportation challenges faced in the first quarter of 2014.

The average North American NBSK pulp list price, as published by RISI, was down US$15 per tonne, or 2%, compared to the average for the first quarter of 2015. Overall NBSK pulp sales realizations were down in the second quarter of 2015, reflecting lower pricing in all regions, and, to a lesser extent, increased shipments to lower-margin regions, particularly China. Also contributing to the reduced sales realizations in the second quarter of 2015, was the 1 cent, or 1%, stronger Canadian dollar compared to the previous quarter. Discount levels were consistent with the previous quarter. BCTMP unit sales realizations reflected moderately lower market prices, attributable to the challenging BCTMP markets, coupled with the slightly stronger Canadian dollar in the second quarter of 2015. The Company's paper operation's current quarter unit sales realizations saw a marginal decrease from the first quarter of 2015, reflecting somewhat weaker prices, in part attributable to lower prices in some markets as European producers leveraged the relative weakening of the European Euro, coupled with the 1% stronger Canadian dollar and decreased prime bleached shipments. Somewhat mitigating these factors were increased shipments to higher-margin regions.

Compared to the second quarter of 2014, NBSK pulp sales realizations were up slightly, with the 11% weaker Canadian dollar and increased shipments to North America offsetting lower NBSK pulp US dollar list prices in all regions, as published by RISI, and to a lesser extent, increased discounts in North America. The average NBSK pulp list price to North America saw a decrease of US$50 per tonne, or 5%, while prices to China saw a similar decline. Also compared to the same period in 2014, paper unit sales realizations were well up, benefitting from the weaker Canadian dollar, and to a lesser extent, higher prices and increased shipments to higher-margin regions, all of which more than offset the decline in realizations on sales to Europe due to the strengthening Canadian dollar compared to the European Euro, and a lower percentage of prime bleached sales.

[22] 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").
[23] As reported by PPPC statistics.

Energy revenue was broadly in line with both comparable periods as the contribution from the recently completed turbine upgrade at the Intercontinental Pulp Mill, which commenced selling power under an Electricity Purchase Agreement in the current quarter, was offset by the impact of the maintenance outages in the current quarter, coupled with seasonally lower energy prices compared to the previous quarter.

Operations

Pulp production in the current quarter was 294,600 tonnes, down 13,600 tonnes, or 4%, from the previous quarter, and up 5,900 tonnes, or 2%, from the second quarter of 2014. The Company's NBSK pulp production decreased modestly compared to the previous quarter but was up slightly compared to the same period in the prior year. Production in the current quarter reflected scheduled maintenance outages at the Intercontinental and Prince George Pulp Mills, which reduced market pulp production by approximately 11,000 tonnes and a scheduled maintenance outage at the Taylor Pulp Mill, which reduced market pulp production by approximately 3,000 tonnes. There were no maintenance outages in the previous quarter, while in the comparative second quarter of 2014, production levels included maintenance outages at the Intercontinental and Prince George Pulp Mills, which reduced market pulp production by approximately 18,000 tonnes.

Paper production in the second quarter of 2015 was 31,000 tonnes, down 4,400 tonnes, or 12%, from both comparable periods. The current quarter production reflected a scheduled nine day maintenance outage at the Company's paper machine in April 2015, which reduced paper production by approximately 3,300 tonnes. In the comparative second quarter of 2014, production levels included the impact of a four day maintenance outage at the Company's paper machine, which reduced paper production by approximately 1,600 tonnes. Production in the current quarter also reflected lower slush pulp transfers from the Prince George Pulp Mill due to the aforementioned scheduled maintenance outage.

Pulp unit manufacturing costs saw an increase from the previous quarter, largely reflecting the maintenance outages in the quarter, which resulted in higher costs and lower production volumes, and to a lesser degree, higher outage-related chemical costs in the current period, offset somewhat by seasonally lower energy price and usage. Fibre costs for the NBSK pulp mills were broadly in line with the previous quarter as lower prices for sawmill residual chips (linked to lower Canadian dollar NBSK pulp sales realizations) and a lower proportion of higher-cost whole log chips offset seasonally higher price adjustments. Fibre costs for the BCTMP mill was lower than the previous quarter also reflecting lower prices for sawmill residual chips (linked to lower Canadian dollar BCTMP pulp sales realizations). Paper unit manufacturing costs increased modestly from the previous quarter, with lower slush pulp costs due to lower overall pulp unit sales realizations in the current quarter more than offset by the impact of the lower production volumes and higher costs related to the outage and, to a lesser degree, higher chemical costs in the current quarter.

Compared to the second quarter of 2014, unit manufacturing costs were also up, with the favourable impact of the higher production volumes largely offsetting modestly higher costs associated with the scheduled maintenance outages in the current quarter and a marginal increase in NBSK pulp fibre costs. Contributing to the higher NBSK pulp fibre costs in the current quarter were higher prices for sawmill residual chips, reflecting increased Canadian dollar NBSK pulp sales realizations, somewhat mitigated by lower freight costs. Higher paper unit manufacturing costs reflected the impact of the longer maintenance outage in the current quarter, market-driven increases in slush pulp costs and higher chemical costs.

Unallocated and Other Items

Selected Financial Information

(millions of Canadian dollars)	**Q2 2015**	Q1 2015	**YTD 2015**	Q2 2014	YTD 2014
Operating loss of Panels operations[24]	**$ (0.6)**	$ (0.7)	**$ (1.3)**	$ (1.1)	$ (2.4)
Corporate costs	**$ (7.8)**	$ (6.9)	**$ (14.7)**	$ (6.6)	$ (13.8)
Finance expense, net	**$ (5.6)**	$ (5.3)	**$ (10.9)**	$ (4.4)	$ (8.8)
Gain (loss) on derivative financial instruments[25]	**$ 12.7**	$ (28.0)	**$ (15.3)**	$ 3.1	$ (0.4)
Other income (expense), net[25]	**$ 3.3**	$ 10.8	**$ 14.1**	$ (10.8)	$ (7.5)

[24] 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.
[25] 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.

Corporate costs were $7.8 million for the second quarter of 2015, up $0.9 million from the previous quarter and up $1.2 million from second quarter of 2014 in part reflecting higher share based compensation expense and legal fees in the current quarter.

Net finance expense at $5.6 million for the second quarter of 2015 was broadly in line with the previous quarter and up $1.2 million from the same quarter in 2014. The increase compared to the second quarter of 2014 reflected higher debt levels as well as higher net interest expense related to the Company's employee future benefit plans.

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. In the second quarter of 2015, the Company recorded a net gain of $12.7 million, principally reflecting unrealized mark-to-market gains on US dollar foreign exchange collars as a result of the strengthening of the Canadian dollar at the close of the current quarter relative to the exchange rate at the close of the first quarter of 2015.

Other income, net of $3.3 million in the second quarter of 2015, included a $7.0 million mark-to-market gain on the Company's investment in Lakeland Mills Ltd. and Winton Global Lumber Ltd., partly offset by unfavourable movements on US dollar denominated working capital resulting from the slight strengthening of the Canadian dollar relative to the US dollar over the course of the quarter (see further discussion on the mark-to-market adjustment to the Company's investment in Lakeland Mills Ltd. and Winton Global Lumber Ltd. in the "Commitments and Subsequent Events" section).

Other Comprehensive Income (Loss)

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

(millions of Canadian dollars)	Q2 2015	Q1 2015	YTD 2015	Q2 2014	YTD 2014
Foreign exchange translation differences for foreign operations	**$ (6.2)**	$ 34.3	**$ 28.1**	$ (10.0)	$ 0.6
Defined benefit actuarial gains (losses), net of tax	**$ 16.4**	$ (3.2)	**$ 13.2**	$ (26.2)	$ (50.5)
Other comprehensive income (loss), net of tax	**$ 10.2**	$ 31.1	**$ 41.3**	$ (36.2)	$ (49.9)

In the second quarter of 2015, the Company recorded an after-tax gain of $16.4 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. After-tax losses of $3.2 million and $26.2 million were recorded in the first quarter of 2015 and second quarter of 2014, respectively, both reflecting lower discount rates, offset in part by returns on plan assets, while the loss in the second quarter of 2014 also included actuarial assumption and experience adjustments.

In addition, the Company recorded a $6.2 million other comprehensive loss in the quarter for foreign exchange translation differences for foreign operations, reflecting unfavourable foreign exchange movements during the quarter. This compared to a foreign exchange translation gain of $34.3 million in the previous quarter and a foreign translation loss of $10.0 million in the second 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)	Q2 2015	Q1 2015	YTD 2015	Q2 2014	YTD 2014
Increase (decrease) in cash and cash equivalents	**$ (70.3)**	$ 55.9	**$ (14.4)**	$ 19.8	$ 18.2
Operating activities	**$ 126.0**	$ 41.8	**$ 167.8**	$ 206.3	$ 156.2
Financing activities	**$ (71.2)**	$ 81.7	**$ 10.5**	$ (150.2)	$ (50.3)
Investing activities	**$ (125.1)**	$ (67.6)	**$ (192.7)**	$ (36.3)	$ (87.7)
Ratio of current assets to current liabilities			**1.8:1**		1.7:1
Net debt to capitalization			**12.2%**		10.8%
ROIC - Consolidated period-to-date	**0.1%**	2.8%	**2.9%**	3.7%	7.2%

Changes in Financial Position

Cash generated from operating activities was $126.0 million in the second quarter of 2015, compared to cash generated of $41.8 million in the previous quarter and cash generated of $206.3 million in the same quarter of 2014. The increase in operating cash flows from the previous quarter principally reflected a seasonal drawdown of log inventories during the spring break-up period in Western Canada and a reduction in finished inventories as sales volumes outpaced production during the quarter partly offset by lower cash earnings. Compared to the second quarter of 2014, the decrease in cash generated from operating activities was primarily attributable to lower cash earnings in the current quarter.

Cash used in financing activities was $71.2 million in the current quarter, compared to cash generated of $81.7 million in the previous quarter and cash used of $150.2 million in the same quarter of 2014. During the second quarter of 2015, Canfor purchased 410,000 common shares for $9.9 million, compared to $26.0 million in the previous quarter and $105.7 million in the same quarter of 2014. In addition, Canfor Pulp purchased 137,855 common shares for $2.0 million. Cash paid for share purchases in the second quarter also included $3.3 million related to Canfor share purchases and $5.3 million related to Canfor Pulp share purchases that occurred at the end of the previous quarter (see further discussion of the shares purchased under the Normal Course Issuer Bid in the following "Liquidity and Financial Requirements" section). During the second quarter of 2015, the Company repaid $41.0 million against its operating loan facility and had $142.0 million outstanding on the facility at the end of the quarter. Financing activities in the first quarter of 2015 included a $115.0 million draw on the operating loan while the second quarter of 2014 included a $39.0 million repayment. During the quarter, the Company paid $6.7 million to non-controlling shareholders, up from $3.0 million in the previous quarter and $2.9 million in the same quarter of 2014, mainly reflecting distributions made to the non-controlling shareholders of Scotch Gulf and Beadles & Balfour in the current quarter.

Cash used for investing activities was $125.1 million in the current quarter, compared to $67.6 million in the previous quarter and $36.3 million in the same quarter of 2014. Cash used for capital additions was $49.4 million, up $3.6 million from the previous quarter and down $13.6 million from the second quarter of 2014. Current quarter capital expenditures included spending on the 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), the Polar sawmill rebuild as well as smaller capital projects at both the SYP and Western SPF operations. In the pulp and paper segment, capital expenditures included final payments related to the completion of the Intercontinental Pulp Mill's turbine upgrade at the end of the previous quarter and maintenance-of-business capital related to the aforementioned maintenance outages during the quarter. The Intercontinental Pulp Mill facility commenced selling power under an Electricity Purchase Agreement in the second quarter of 2015. Investing activities in the current quarter also included cash consideration paid of $65.6 million related to the purchase of the operating assets of Southern Lumber (See further discussion on the acquisition of Southern Lumber in the following "Acquisition of Southern Lumber" section).

Liquidity and Financial Requirements

At June 30, 2015, the Company on a consolidated basis had cash of $143.9 million, $142.0 million drawn on its operating loans, and an additional $50.4 million reserved for several standby letters of credit. Total available undrawn operating loans at period end were $325.1 million. In early July, the Company made tax installment payments of $22.6 million and received $15.0 million for the first payment related to the sale of the Company's investment in Lakeland Mills Ltd. and Winton Global Lumber Ltd.

During the second quarter of 2015, CPPI extended the maturity date on its $30.0 million operating loan facility, which covers energy-related letters of credit, to June 30, 2016.

Canfor has $100.0 million of floating interest rate term debt, repayable in February 2017 and $75.0 million of floating interest term debt, repayable in November 2019. 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 second quarter of 2015 was 12.2%. For Canfor, excluding CPPI, net debt to capitalization at the end of the second quarter of 2015 was 16.2%.

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

Acquisition of Southern Lumber

On April 1, 2015, the Company completed the acquisition of Southern Lumber's Mississippi operating assets for total 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 tangible assets and $47.3 million of goodwill.

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"). The total investment cost is estimated to be $58.0 million and production is scheduled to commence in late 2015. 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.

Subsequent to quarter end, on July 1, 2015, the Company sold its 33.3% investment in Lakeland Mills Ltd. and Winton Global Lumber Ltd. to Robert Stewart Holdings Ltd. for cash consideration of $30.0 million. The proceeds will be paid in two equal installments of $15.0 million with the first installment received on July 1, 2015 and the second installment scheduled to be received on July 1, 2017. On June 30, 2015, the Company's investment was recorded at fair value of $30.0 million and a gain of $7.0 million was recognized in Other Income.

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

OUTLOOK

Lumber

The North American lumber market is forecast to continue to improve at a modest pace through the third quarter of 2015, with further improvements projected through the fall. Offshore markets are forecast to be relatively stable in the third quarter of 2015. A weakening of the Canadian dollar is forecast to benefit the lumber segment in the third quarter of 2015.

With the low Random Lengths Framing Lumber Composite Price during the second quarter of 2015, an export duty of 15% will be paid on exports to the US in July. Improved lumber prices towards the end of the second quarter and into the beginning of the third quarter of 2015 will result in a decline in the export tax rate on US bound shipments to 5% in August.

Pulp and Paper

For the month of July 2015, Canfor Pulp's NBSK pulp list price is US$980 per tonne in North America, unchanged from June 2015. With reported global softwood pulp inventories at the high end of the balanced range heading into the seasonally slower summer period, there is some risk of downward pressure on global softwood pulp prices in the third quarter of 2015. A weakening of the Canadian dollar should mitigate this price pressure.

A maintenance outage is planned to begin at the Northwood Pulp Mill in September 2015, with a projected 25,000 tonnes of reduced NBSK pulp production, 5,000 tonnes of which will fall in the third quarter of 2015 with the balance in the fourth quarter of 2015.

OUTSTANDING SHARES

At July 21, 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 July 2014, the International Accounting Standards Board ("IASB") issued IFRS 9, *Financial Instruments*. The required adoption date for IFRS 9 is January 1, 2018 and the Company is in process of assessing the impact, if any, on the financial statements of this new standard.

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.

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 June 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 or www.sedar.com.

Softwood Lumber Agreement

Canadian softwood lumber exports to the US are currently subject to export taxes under the Softwood Lumber Agreement ("SLA") which has been in place since October 2006. In January 2012, Canada and the US agreed to a two year extension to the SLA extending the expiry of the agreement to October 2015. If the agreement is not renewed or replaced before the October 2015 expiry, the current SLA provides that 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 current SLA expiry date.

SELECTED QUARTERLY FINANCIAL INFORMATION

	Q2 2015	Q1 2015	Q4 2014	Q3 2014	Q2 2014	Q1 2014	Q4 2013	Q3 2013
Sales and income (millions of Canadian dollars)								
Sales	**$ 952.4**	$ 930.0	$ 860.4	$ 838.0	$ 907.3	$ 741.9	$ 809.5	$ 755.9
Operating income	**$ 17.6**	$ 83.7	$ 62.0	$ 85.6	$ 97.3	$ 84.4	$ 53.8	$ 49.3
Net income	**$ 23.9**	$ 47.0	$ 40.5	$ 58.2	$ 64.5	$ 58.6	$ 35.1	$ 33.6
Shareholder net income	**$ 11.1**	$ 29.3	$ 29.9	$ 45.5	$ 54.3	$ 45.5	$ 28.0	$ 28.4
Per common share (Canadian dollars)								
Shareholder net income – basic and diluted	**$ 0.08**	$ 0.22	$ 0.22	$ 0.34	$ 0.39	$ 0.33	$ 0.20	$ 0.20
Book value[26]	**$ 9.86**	$ 9.76	$ 10.25	$ 10.24	$ 9.75	$ 10.05	$ 9.82	$ 9.47
Statistics								
Lumber shipments (MMfbm)	**1,367**	1,172	1,092	1,124	1,236	927	1,109	1,172
Pulp shipments (000 mt)	**292**	287	314	291	314	256	330	268
Average exchange rate – US$/Cdn$	**$ 0.813**	$ 0.806	$ 0.881	$ 0.918	$ 0.917	$ 0.906	$ 0.953	$ 0.963
Average Western SPF 2x4 #2&Btr lumber price (US$)	**$ 270**	$ 308	$ 340	$ 357	$ 335	$ 367	$ 370	$ 328
Average SYP (East) 2x4 #2 lumber price (US$)	**$ 383**	$ 413	$ 427	$ 438	$ 405	$ 403	$ 415	$ 393
Average NBSK pulp list price delivered to U.S. (US$)	**$ 980**	$ 995	$ 1,025	$ 1,030	$ 1,030	$ 1,017	$ 983	$ 947

[26] 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)	Q2 2015	Q1 2015	Q4 2014	Q3 2014	Q2 2014	Q1 2014	Q4 2013	Q3 2013
Shareholder net income, as reported	**$ 11.1**	$ 29.3	$ 29.9	$ 45.5	$ 54.3	$ 45.5	$ 28.0	$ 28.4
(Gain) loss on derivative financial instruments	**$ (7.7)**	$ 17.2	$ 5.2	$ 0.7	$ (2.1)	$ 2.1	$ 0.1	$ (2.2)
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	$ 1.0
Gain on sale of Daaquam operation	**$ -**	$ -	$ -	$ -	$ -	$ (1.6)	$ -	$ -
Foreign exchange (gain) loss on long-term debt and investments, net	**$ -**	$ -	$ -	$ -	$ -	$ -	$ 1.5	$ (1.0)
Mill closure provisions	**$ -**	$ -	$ -	$ -	$ -	$ -	$ 14.8	$ -
One-time costs associated with collective agreements for the lumber business	**$ -**	$ -	$ -	$ -	$ -	$ -	$ 0.8	$ -
Net impact of above items	**$ (13.1)**	$ 17.2	$ 5.2	$ 5.2	$ 2.4	$ 0.9	$ 20.8	$ (2.2)
Adjusted shareholder net income (loss)	**$ (2.0)**	$ 46.5	$ 35.1	$ 50.7	$ 56.7	$ 46.4	$ 48.8	$ 26.2
Shareholder net income per share (EPS), as reported	**$ 0.08**	$ 0.22	$ 0.22	$ 0.34	$ 0.39	$ 0.33	$ 0.20	$ 0.20
Net impact of above items per share	**$ (0.10)**	$ 0.13	$ 0.04	$ 0.04	$ 0.02	$ 0.01	$ 0.15	$ (0.02)
Adjusted net income (loss) per share	**$ (0.02)**	$ 0.35	$ 0.26	$ 0.38	$ 0.41	$ 0.34	$ 0.35	$ 0.18

Canfor Corporation
Condensed Consolidated Balance Sheets

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

Subsequent Events (Note 14)

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

APPROVED BY THE BOARD

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

Canfor Corporation
Condensed Consolidated Statements of Income

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

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

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

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

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

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

Canfor Corporation
Condensed Consolidated Statements of Cash Flows

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

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

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

1. Basis of Preparation

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

These financial statements do not include all of the disclosures required by International Financial Reporting Standards ("IFRS") for annual financial statements. Additional disclosures relevant to the understanding of these financial statements, including the accounting policies applied, can be found in the Company's Annual Report for the year ended December 31, 2014, available at www.canfor.com or www.sedar.com.

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

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

These financial statements were authorized for issue by the Company's Board of Directors on July 21, 2015.

Accounting Standards Issued and Not Applied

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

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

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

2. Inventories

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

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

3. Long-Term Investments and Other

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

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

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

4. Operating Loans

Available Operating Loans

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

Canfor's principal operating loans, excluding Canfor Pulp Products Inc. ("CPPI"), mature on February 28, 2019. Interest is payable at floating rates based on the lenders' Canadian prime rate, bankers acceptances, US dollar base rate or US dollar LIBOR rate, plus a margin that varies with the Company's net debt to total capitalization ratio.

The terms of CPPI's operating loan facility include interest payable at floating rates that vary depending on the ratio of net debt to total capitalization and is based on lenders' Canadian prime rate, bankers acceptances, US dollar base rate or US dollar LIBOR rate, plus a margin. The maturity date of this facility is January 31, 2018.

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

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

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

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

5. Employee Future Benefits

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

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

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

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

6. Financial Instruments

Canfor's cash and cash equivalents, accounts receivable, other deposits, loans and advances, operating loans, accounts payable and accrued liabilities, and long-term debt are measured at amortized cost subsequent to initial measurement. At June 30, 2015, the fair value of the Company's long-term debt approximates its amortized cost of $228.9 million (December 31, 2014 - $228.6 million).

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

The three levels of the fair value hierarchy are:

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

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

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

The following table summarizes Canfor's financial instruments measured at fair value at June 30, 2015 and December 31, 2014, and shows the level within the fair value hierarchy in which they have been classified:

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

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

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

At June 30, 2015, the fair value of derivative financial instruments was a net liability of $9.2 million (December 31, 2014 - net liability of $8.8 million). The fair value of these financial instruments was determined based on prevailing market rates for instruments with similar characteristics.

The following table summarizes the gains (losses) on derivative financial instruments for the three and six month periods ended June 30, 2015 and 2014:

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

7. Income Taxes

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

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

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

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

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

8. Earnings Per Share and Normal Course Issuer Bid

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

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

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

9. Net Change in Non-Cash Working Capital

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

10. Segment Information

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

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

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

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

[1] Capital expenditures represent cash paid for capital assets during the periods. Pulp & Paper includes capital expenditures by CPPI that were partially financed by government grants. Capital expenditures for the six months ended June 30, 2015 exclude the assets purchased as part of the acquisitions of Scotch Gulf, Beadles & Balfour, and Southern Lumber (Note 13 (a,b,c)).

11. Sale of Daaquam Operation

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

12. Sale of Taylor Pulp Mill

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

13. US South Acquisitions

(a) Phased Purchase of Scotch Gulf

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

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

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

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

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

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

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

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

(b) Phased Purchase of Beadles & Balfour

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

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

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

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

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

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

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

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

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

(c) Purchase of Southern Lumber

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

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

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

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

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

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

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

14. Subsequent Events

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

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