2015

CANFOR CORPORATION

FINANCIAL STATEMENTS

MANAGEMENT'S RESPONSIBILITY

The information and representations in these consolidated financial statements are the responsibility of management and have been approved by the Board of Directors. The consolidated financial statements were prepared by management in accordance with International Financial Reporting Standards and, where necessary, reflect management's best estimates and judgments at this time. It is reasonably possible that circumstances may arise which cause actual results to differ. Management does not believe it is likely that any differences will be material.

Canfor Corporation maintains systems of internal accounting controls, policies and procedures to provide reasonable assurance as to the reliability of the financial records and the safeguarding of its assets.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The Board carries out these activities primarily through its Audit Committee.

The Audit Committee is comprised of three Directors who are not employees of the Company. The Committee meets periodically throughout the year with management, external auditors and internal auditors to review their respective responsibilities, results of the reviews of internal accounting controls, policies and procedures and financial reporting matters. The external and internal auditors meet separately with the Audit Committee.

The consolidated financial statements have been reviewed by the Audit Committee and approved by the Board of Directors. The consolidated financial statements have been audited by KPMG LLP, the external auditors, whose report follows.

February 17, 2016

"*Don B. Kayne*"

Don B. Kayne
President and Chief Executive Officer

"*Alan Nicholl*"

Alan Nicholl
Senior Vice-President, Finance and Chief Financial Officer

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Canfor Corporation

We have audited the accompanying consolidated financial statements of Canfor Corporation, which comprise the consolidated balance sheet as at December 31, 2015, the consolidated statement of income, the consolidated statement of other comprehensive income (loss), changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Canfor Corporation as at December 31, 2015, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Comparative Information

The consolidated financial statements of Canfor Corporation as at and for the year ended December 31, 2014 were audited by another auditor who expressed an unmodified opinion on those financial statements on February 4, 2015.

"KPMG LLP"

February 17, 2016
Vancouver, Canada

Canfor Corporation
Consolidated Balance Sheets

(millions of Canadian dollars)	As at December 31, 2015	As at December 31, 2014
ASSETS		
Current assets		
Cash and cash equivalents	**$ 97.5**	$ 158.3
Restricted cash (Note 30)	**-**	50.2
Accounts receivable - Trade	**191.8**	91.3
- Other	**61.1**	38.8
Inventories (Note 5)	**587.2**	517.7
Prepaid expenses and other assets	**53.2**	46.3
Total current assets	**990.8**	902.6
Property, plant and equipment (Note 6)	**1,445.1**	1,216.1
Timber licenses (Note 7)	**515.2**	519.5
Goodwill and other intangible assets (Note 8)	**241.0**	105.0
Retirement benefit surplus (Note 13)	**2.7**	0.6
Long-term investments and other (Note 9)	**98.6**	101.3
Deferred income taxes, net (Note 21)	**1.2**	1.7
Total assets	**$ 3,294.6**	$ 2,846.8
LIABILITIES		
Current liabilities		
Operating loans (Note 11)	**$ 158.0**	$ 68.0
Accounts payable and accrued liabilities (Note 10)	**350.3**	305.8
Current portion of deferred reforestation obligations (Note 14)	**50.7**	52.1
Forward purchase liability (Note 30)	**76.1**	-
Total current liabilities	**635.1**	425.9
Long-term debt (Note 12)	**456.2**	228.6
Retirement benefit obligations (Note 13)	**258.6**	263.2
Deferred reforestation obligations (Note 14)	**61.6**	60.0
Other long-term liabilities	**20.1**	19.6
Forward purchase liability (Note 30)	**43.0**	-
Deferred income taxes, net (Note 21)	**192.3**	211.9
Total liabilities	**$ 1,666.9**	$ 1,209.2
EQUITY		
Share capital (Note 17)	**$ 1,047.7**	$ 1,068.0
Contributed surplus and other equity	**(74.5)**	31.9
Retained earnings	**257.7**	260.1
Accumulated foreign exchange translation of foreign operations	**100.0**	27.2
Total equity attributable to equity shareholders of the Company	**1,330.9**	1,387.2
Non-controlling interests (Note 18)	**296.8**	250.4
Total equity	**$ 1,627.7**	$ 1,637.6
Total liabilities and equity	**$ 3,294.6**	$ 2,846.8

Commitments (Notes 25, 30 & 32) & **Subsequent Event** (Note 32)

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

APPROVED BY THE BOARD

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

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

Canfor Corporation
Consolidated Statements of Income

(millions of Canadian dollars, except per share data)	Years ended December 31, **2015**	2014
Sales	**$ 3,925.3**	$ 3,347.6
Costs and expenses		
Manufacturing and product costs	**2,780.8**	2,201.9
Freight and other distribution costs	**646.9**	548.6
Export taxes	**28.1**	-
Amortization	**214.0**	182.5
Selling and administration costs	**89.8**	78.5
Restructuring, mill closure and severance costs (Note 16)	**24.7**	6.8
	3,784.3	3,018.3
Equity income (Note 9)	**0.6**	-
Operating income	**141.6**	329.3
Finance expense, net (Note 20)	**(24.9)**	(18.2)
Foreign exchange loss on long-term debt	**(5.9)**	-
Loss on derivative financial instruments (Note 27)	**(28.1)**	(8.9)
Other income (expense), net	**27.7**	(4.2)
Net income before income taxes	**110.4**	298.0
Income tax expense (Note 21)	**(18.5)**	(76.2)
Net income	**$ 91.9**	$ 221.8
Net income attributable to:		
Equity shareholders of the Company	**$ 24.7**	$ 175.2
Non-controlling interests (Note 18)	**67.2**	46.6
Net income	**$ 91.9**	$ 221.8
Net income per common share: (in Canadian dollars)		
Attributable to equity shareholders of the Company		
- Basic and diluted (Note 17)	**$ 0.18**	$ 1.28

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

Canfor Corporation
Consolidated Statements of Other Comprehensive Income (Loss)

(millions of Canadian dollars)		Years ended December 31, 2015		2014
Net income	**$**	**91.9**	$	221.8
Other comprehensive income (loss)				
Items that will not be recycled through net income:				
Defined benefit plan actuarial gains (losses) (Note 13)		**28.4**		(115.7)
Income tax recovery (expense) on defined benefit actuarial gains (losses) (Note 21)		**(7.3)**		30.5
		21.1		(85.2)
Items that may be recycled through net income:				
Foreign exchange translation of foreign operations, net of tax		**72.8**		22.7
Other comprehensive income (loss), net of tax		**93.9**		(62.5)
Total comprehensive income	**$**	**185.8**	$	159.3
Total comprehensive income attributable to:				
Equity shareholders of the Company	**$**	**115.9**	$	122.2
Non-controlling interests (Note 18)		**69.9**		37.1
Total comprehensive income	**$**	**185.8**	$	159.3

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

Canfor Corporation
Consolidated Statements of Changes in Equity

(millions of Canadian dollars)	Years ended December 31, 2015	2014
Share capital		
Balance at beginning of year	**$ 1,068.0**	$ 1,103.7
Share purchases (Note 17)	**(20.3)**	(35.7)
Balance at end of year (Note 17)	**$ 1,047.7**	$ 1,068.0
Contributed surplus and other equity		
Balance at beginning of year	**$ 31.9**	$ 31.9
Forward purchase liabilities related to acquisitions (Note 30)	**(106.4)**	-
Balance at end of year	**$ (74.5)**	$ 31.9
Retained earnings		
Balance at beginning of year	**$ 260.1**	$ 234.2
Net income attributable to equity shareholders of the Company	**24.7**	175.2
Defined benefit plan actuarial gains (losses), net of tax	**18.4**	(75.7)
Share purchases (Note 17)	**(38.9)**	(73.2)
Acquisition of non-controlling interests (Note 17)	**(6.6)**	(0.4)
Balance at end of year	**$ 257.7**	$ 260.1
Accumulated foreign exchange translation		
Balance at beginning of year	**$ 27.2**	$ 4.5
Foreign exchange translation of foreign operations, net of tax	**72.8**	22.7
Balance at end of year	**$ 100.0**	$ 27.2
Total equity attributable to equity holders of the Company	**$ 1,330.9**	$ 1,387.2
Non-controlling interests		
Balance at beginning of year	**$ 250.4**	$ 223.1
Net income attributable to non-controlling interests	**67.2**	46.6
Defined benefit plan actuarial gains (losses) attributable to non-controlling interests, net of taxes	**2.7**	(9.5)
Distributions to non-controlling interests	**(56.8)**	(10.2)
Acquisition of non-controlling interests (Note 17)	**(19.0)**	(1.6)
Non-controlling interests arising on acquisitions (Note 30)	**52.3**	2.0
Balance at end of year (Note 18)	**$ 296.8**	$ 250.4
Total equity	**$ 1,627.7**	$ 1,637.6

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

Canfor Corporation
Consolidated Statements of Cash Flows

(millions of Canadian dollars)	Years ended December 31, 2015	2014
Cash generated from (used in):		
Operating activities		
Net income	**$ 91.9**	$ 221.8
Items not affecting cash:		
Amortization	**214.0**	182.5
Income tax expense	**18.5**	76.2
Long-term portion of deferred reforestation obligations	**(2.0)**	(10.9)
Foreign exchange loss on long-term debt	**5.9**	-
Changes in mark-to-market value of derivative financial instruments	**(4.1)**	9.1
Employee future benefits	**16.8**	12.4
Finance expense, net	**24.9**	18.2
Mill closure provisions	**19.4**	-
Other, net	**2.8**	19.4
Defined benefit plan contributions, net	**(5.9)**	(29.7)
Income taxes paid, net	**(61.3)**	(39.5)
	320.9	459.5
Net change in non-cash working capital (Note 22)	**(66.3)**	(73.6)
	254.6	385.9
Financing activities		
Change in operating bank loans (Note 11)	**90.0**	(7.2)
Proceeds from long-term debt (Note 12)	**388.4**	75.0
Repayment of long-term debt (Note 12)	**(175.0)**	-
Finance expenses paid	**(12.7)**	(11.4)
Share purchases (Note 17)	**(59.2)**	(108.9)
Acquisition of non-controlling interests (Note 17)	**(25.3)**	(2.0)
Cash distributions paid to non-controlling interests	**(56.8)**	(10.2)
	149.4	(64.7)
Investing activities		
Additions to property, plant and equipment, timber and intangible assets, net	**(240.0)**	(234.3)
Acquisitions (Note 30)	**(263.4)**	(9.9)
Timber investment loan (Note 9)	**(30.0)**	-
Proceeds received on sale of Lakeland Winton (Note 9)	**15.0**	-
Change in restricted cash (Note 30)	**50.2**	(50.2)
Proceeds received on sale of Daaquam sawmill (Note 28)	**-**	23.6
Other, net	**(9.8)**	11.9
	(478.0)	(258.9)
Foreign exchange gain on cash and cash equivalents	**13.2**	6.5
Increase (decrease) in cash and cash equivalents*	**(60.8)**	68.8
Cash and cash equivalents at beginning of year*	**158.3**	89.5
Cash and cash equivalents at end of year*	**$ 97.5**	$ 158.3

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

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

1. Reporting Entity

Canfor Corporation is a company incorporated and domiciled in Canada and listed on The Toronto Stock Exchange. The address of the Company's registered office is 100-1700 West 75th Avenue, Vancouver, British Columbia, Canada, V6P 6G2. The consolidated financial statements of the Company as at and for the year ended December 31, 2015 comprise the Company and its subsidiaries (together referred to as "Canfor" or "the Company") and the Company's interests in associates and jointly controlled entities.

Canfor is an integrated forest products company with facilities in Canada and the United States ("US"). The Company produces softwood lumber, pulp and paper products, remanufactured lumber products, engineered wood products, wood pellets and energy.

2. Basis of Preparation

Statement of compliance

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The consolidated financial statements were authorized for issue by the Board of Directors on February 17, 2016.

Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis, except for the following material items:

- Financial instruments classified as fair value through profit and loss are measured at fair value;
- Equity investments are initially recognized at cost and subsequently increased or decreased to recognize the inventor's share of the investee's equity;
- Asset retirement obligations and deferred reforestation obligations are measured at the discounted value of expected future cash flows; and
- The retirement benefit surplus and obligation related to the defined benefit pension plans is the net of the accrued benefit obligation and the fair value of the plan assets.

Use of estimates and judgments

The preparation of the consolidated financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Canfor regularly reviews its estimates and assumptions; however, it is possible that circumstances may arise which may cause actual results to differ from management estimates, and these differences could be material. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about the significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements is included in the applicable notes:

- Note 6 – Property, Plant and Equipment;
- Note 7 – Timber Licenses;
- Note 8 – Goodwill and Other Intangible Assets;
- Note 9 – Long-Term Investments and Other;
- Note 13 – Employee Future Benefits;
- Note 14 – Deferred Reforestation Obligations;
- Note 15 – Asset Retirement Obligations;
- Note 16 – Restructuring, Mill Closure and Severance Costs;
- Note 21 – Income Taxes; and
- Note 30 – Acquisitions.

3. Significant Accounting Policies

The following accounting policies have been applied to the financial information presented.

Basis of consolidation

Subsidiaries are entities controlled by the Company. Control exists when Canfor is able to govern the financial and operating activities of those other entities to generate returns for the Company. Inter-company transactions, balances and unrealized gains and losses on transactions between different entities within the Company are eliminated. Significant subsidiaries include Canadian Forest Products Ltd. and New South Companies, Inc. ("New South"), which are wholly owned, and Canfor Pulp Products Inc. ("CPPI"), which is 51.9% owned. During 2015, the Company completed the third phase of the purchase of the lumber business of Scotch & Gulf Lumber, LLC ("Scotch Gulf"), increasing its ownership to 50% and completed the first phase of the purchase of the lumber business of Beadles Lumber Company & Balfour Lumber Company Inc. ("Beadles & Balfour"), representing an initial 55% ownership interest. Canfor is scheduled to acquire the remaining 50% of Scotch Gulf in July 2016 and the remaining 45% of Beadles & Balfour in January 2017. In 2015, Canfor also acquired Southern Lumber Company Inc. ("Southern Lumber") and Anthony Forest Products Company ("Anthony"), which are wholly owned.

Associates are those entities in which Canfor exercises significant influence, but not control, over financial and operating policies. Unless circumstances indicate otherwise, significant influence is presumed to exist when Canfor holds between 20 and 50 percent of the voting power of another entity. Associates are accounted for using the equity method and are recognized initially at cost. The consolidated financial statements include Canfor's share of the post-acquisition income and expenses and equity movement of these equity accounted investees.

Joint ventures are accounted for using the equity method of accounting. As part of the acquisition of Anthony, Canfor acquired a 50% interest in Anthony EACOM Inc., a joint venture that owns and operats an I-joist facility located in Sault St. Marie, Ontario (Note 9).

Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date. Canfor measures goodwill at the acquisition date as the fair value of the consideration transferred including any non-controlling interest less the fair value of the identifiable assets acquired and liabilities assumed. When the excess is negative, a bargain purchase gain is recognized immediately in net income. Transaction costs in connection with business combinations are expensed as incurred.

Cash and cash equivalents

Cash and cash equivalents include cash in bank accounts and highly liquid money market instruments with maturities of three months or less from the date of acquisition, and are valued at cost, which approximates market value. Cash is presented net of unpresented cheques. When the amount of unpresented cheques is greater than the amount of cash, the net amount is presented as cheques issued in excess of cash on hand. Interest is earned at variable rates dependent on the amount, credit quality and term of the Company's deposit.

Financial instruments

Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity securities, trade and other receivables, cash and cash equivalents, loans and advances, and trade and other payables. Non-derivative financial instruments are recognized initially at fair value plus, for instruments not at fair value through net income, any directly attributable transaction costs. Subsequent to initial recognition, non-derivative financial instruments are measured as described below:

Financial assets at fair value through net income - An instrument is classified at fair value through net income if it is held for trading or is designated as such upon initial recognition. Financial instruments at fair value through net income are measured at fair value, and changes therein are recognized in the statements of income, with attributable transaction costs being recognized in net income when incurred.

Available-for-sale financial assets - Available for sale financial assets are non-derivatives that are either designated in this category or not classified in any other categories. These are measured at fair value through other comprehensive income.

Loans and receivables - Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These are measured at amortized cost using the effective interest method, less any impairment losses. The effective interest method is used to spread the total costs of or income from a financial instrument over the life of the instrument. Financial assets included within this category for Canfor are trade and other receivables, and cash and cash equivalents.

Other liabilities - All of Canfor's financial liabilities are measured at amortized cost using the effective interest method.

Derivative financial instruments

Canfor uses derivative financial instruments in the normal course of its operations as a means to manage its foreign exchange, interest rate, lumber and pulp price and energy price risk. Canfor's policy is not to utilize derivative financial instruments for trading or speculative purposes.

Canfor's derivative financial instruments are not designated as hedges for accounting purposes. Consequently, such derivatives for which hedge accounting is not applied are carried on the balance sheet at fair value, with changes in fair value (realized and unrealized) being recognized in the statements of income as 'Gain (loss) on derivative financial instruments'.

The fair value of the derivatives is determined with reference to period end market trading prices for derivatives with comparable characteristics.

Inventories

Inventories include logs, lumber, engineered wood products, pulp, kraft paper, chips, and materials and supplies. These are measured at the lower of cost and net realizable value. The cost of inventories is based on the weighted average cost principle, and includes raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses.

Property, plant and equipment

Items of property, plant and equipment are measured at cost less accumulated amortization and impairment losses.

Cost includes expenditures which are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, borrowing costs (as applicable), and any other costs directly attributable to bringing assets to be used in the manner intended by management.

The cost of replacing a major component of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to Canfor and its cost can be measured reliably. The carrying amount of the replaced component is removed. The costs of the day-to-day servicing of property, plant and equipment are recognized in net income as incurred.

Amortization is recognized in net income on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment, as set out in the table below. Land is not amortized. The significant majority of Canfor's amortization expense for property, plant and equipment relates to manufacturing and product costs.

Amortization methods, useful lives and residual values are reviewed, and adjusted if appropriate, at each reporting date. The following rates have been applied to Canfor's capital assets:

Buildings	5 to 50 years
Pulp and kraft paper machinery and equipment	20 years
Sawmill machinery and equipment	5 to 15 years
Logging machinery and equipment	4 to 20 years
Logging roads and bridges	5 to 25 years
Mobile and other equipment	5 years

Timber licenses

Timber licenses include tree farm licenses, forest licenses and timber licenses with the Provinces of British Columbia and Alberta. Timber licenses are carried at cost less accumulated amortization. Renewable licenses are amortized using the straight-line method over 50 years, while non-renewable licenses are amortized over the period of the license.

Other intangible assets

Goodwill

Goodwill represents the excess of the cost of a business acquisition over the fair value of Canfor's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill is tested annually for impairment and carried at cost less any accumulated impairment losses.

Customer agreements

Canfor's customer agreements were acquired as part of the purchase of New South, and were recognized at fair value at the acquisition date. The customer agreements have a finite useful life and are carried at cost less accumulated amortization, which is recorded on a straight-line basis over 10 years.

Computer software

Software development costs relate to major software systems purchased or developed by the Company. These costs are amortized on a straight-line basis over periods not exceeding five years.

Government assistance

Government assistance relating to the acquisition of property, plant and equipment is recorded as a reduction of the cost of the asset to which it relates, with any amortization calculated on the net amount. Government grants related to income are recognized as income or a reimbursement of costs on a systematic basis over the periods necessary to match them with the related costs which they were intended to compensate.

Asset impairment

Canfor's property, plant and equipment, timber licenses and other intangible assets are reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognized in net income at the amount the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows that are largely independent of cash inflows from other assets or groups of assets (cash-generating units or "CGU").

Non-financial assets, other than goodwill, for which an impairment was recorded in a prior period are reviewed for possible reversal of the impairment at each reporting date. When an impairment loss is reversed, the increased carrying amount of the asset cannot exceed the carrying amount that would have been determined (net of amortization) had no impairment loss been recognized in prior years.

For the purpose of impairment testing, goodwill is allocated to the Company's operating divisions which represent the lowest level within the Company at which the goodwill is monitored for internal management purposes.

Financial assets are reviewed at each reporting date to determine whether there is evidence indicating they are impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative impact on estimated future cash flows from that asset. An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. All impairment losses are recognized in net income.

Employee benefits

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity makes contributions to a separate entity and has no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense when they are earned.

For hourly employees covered by industry union defined contribution pension plans, the statements of income are charged with the Company's contributions required under the collective agreements.

Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. Canfor has various defined benefit plans that provide both pension and other retirement benefits to most of its salaried employees and certain hourly employees not covered by forest industry union plans. Canfor also provides certain health care benefits and pension bridging benefits to eligible retired employees.

The surplus and obligation recognized in the balance sheet in respect of a defined benefit pension plan is the net of the accrued benefit obligation and the fair value of the plan assets. The accrued benefit obligation, the related service cost and, where applicable, the past service cost is determined separately for each defined benefit pension plan based on actuarial determinations using the projected unit credit method. Under the projected unit credit method, the accrued benefit obligation is calculated as the present value of each member's prospective benefits earned in respect of credited service prior to the valuation date and the related service cost is calculated as the present value of the benefits the member is assumed to earn for credited service in the ensuing year. The actuarial assumptions used in these calculations, such as salary escalation and health care inflation, are based upon best estimates selected by Canfor. The discount rate assumptions are based on the yield at the reporting date on high quality corporate bonds that have maturity dates approximating the terms of Canfor's obligations.

Actuarial gains and losses can arise from differences between actual and expected outcomes or changes in the actuarial assumptions. Actuarial gains and losses, including the return on plan assets, are recognized in other comprehensive income on a quarterly basis and in the period in which they occur.

Provisions

Canfor recognizes a provision if, as a result of a past event, it has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. The provision recorded is management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The expense arising from the unwinding of the discount due to the passage of time is recorded as a finance cost. The main classes of provision recognized by Canfor are as follows:

Asset retirement obligations

Canfor recognizes a liability for asset retirement obligations in the period in which they are incurred. The site restoration costs are capitalized as part of the cost of the related item of property, plant and equipment and amortized on a basis consistent with the expected useful life of the related asset. Asset retirement obligations are discounted at the risk-free rate in effect at the balance sheet date.

Deferred reforestation obligations

Forestry legislation in British Columbia and Alberta requires Canfor to incur the cost of reforestation of its forest, timber and tree farm licenses and forest management agreements. Accordingly, Canfor records a liability for the costs of reforestation in the period in which the timber is harvested. In periods subsequent to the initial measurement, changes in the liability resulting from the passage of time and revisions to management's estimates are recognized in net income as they occur. Deferred reforestation obligations are discounted at the risk-free rate in effect at the balance sheet date.

Restructuring

A provision for restructuring is recognized when Canfor has approved a detailed and formal restructuring plan, which may include the indefinite or permanent closure of one of its operations, and the restructuring either has commenced or has been announced publicly. Provisions are not recognized for future operating costs.

Share-based compensation

Canfor has one share-based compensation plan, as described in Note 19. Compensation expense is recognized for Canfor's Deferred Share Unit ("DSU") Plans when the DSUs are granted, with a corresponding increase to liabilities. The liability is remeasured at each reporting date and at settlement date, with any changes in the fair value of the liability recognized as compensation expense in net income. The fair value of the DSUs is determined with reference to the market price of Canfor's shares as at the date of valuation.

Revenue recognition

Canfor's revenues are derived from the sale of lumber, engineered wood products, pulp, kraft paper, residual fibre, logs and energy. Revenue is measured at the fair value of the consideration received or receivable net of applicable sales taxes, returns, rebates and discounts and after eliminating sales within the Company. Revenue is recognized when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible returns of the goods can be estimated reliably, there is no continuing management involvement with the goods, and the amounts of revenue can be measured reliably.

Amounts charged to customers for shipping and handling are recognized as revenue, and shipping and handling costs incurred by Canfor are reported as a component of freight and other distribution costs. Lumber export taxes are recorded as a component of operating income.

Income taxes

Income tax expense comprises current and deferred tax. Current and deferred taxes are recognized in net income except to the extent that they relate to items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the period, using the tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous periods.

Canfor recognizes deferred income tax in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred income tax is measured at tax rates expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred income tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred income tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Investment tax credits are credited to manufacturing and product costs in the period in which it becomes reasonably assured that the Company is entitled to them. Unused investment tax credits are recorded as other current or long-term assets in the Company's balance sheet, depending upon when the benefit is expected to be received.

Foreign currency translation

Items included in the financial statements of each of the Company's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency.

The majority of Canfor's sales are denominated in foreign currencies, principally the US dollar. Transactions in foreign currencies are translated to the functional currencies of the respective entities at exchange rates on the dates of transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate on that date. Foreign currency differences arising on translation are recognized in net income.

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to the Canadian dollar at exchange rates on the reporting date. The income and expenses of foreign operations are translated to the Canadian dollar at exchange rates on the transaction dates. Foreign exchange differences are recognized in other comprehensive income, and recorded to the accumulated foreign exchange translation account. Canfor's foreign operations include New South, Scotch Gulf, Beadles & Balfour, Southern Lumber and Anthony, and all entities owned or partly owned by these entities.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. Segment results reported to the chief operating decision-maker include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items mainly comprise interest bearing liabilities, head office expenses, and income tax assets and liabilities. Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, timber licenses and intangible assets, other than goodwill.

4. Accounting Standards Issued and Not Applied

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

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

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

5. Inventories

(millions of Canadian dollars)	As at December 31, 2015	As at December 31, 2014
Logs	**$ 169.1**	$ 122.6
Finished products	**285.4**	281.0
Residual fibre	**20.8**	10.3
Processing materials and supplies	**111.9**	103.8
	$ 587.2	$ 517.7

The above inventory balances are stated after inventory write-downs from cost to net realizable value. Write-downs at December 31, 2015 totaled $0.5 million (December 31, 2014 - nil).

For the year ended December 31, 2015, costs of raw materials, consumables and finished products recognized as manufacturing and product costs amounted to $1,353.1 million (2014 - $1,038.8 million).

6. Property, Plant and Equipment

(millions of Canadian dollars)	Land	Pulp and kraft paper mills	Solid Wood plants[2]	Logging assets and other equipment	Total
Cost					
Balance at January 1, 2014	$ 46.8	$ 1,509.1	$ 1,493.2	$ 199.4	$ 3,248.5
Additions[1]	-	59.5	139.7	25.1	224.3
Disposals	(3.3)	(10.7)	(109.1)	(1.2)	(124.3)
Effect of movements in exchange rates	1.6	-	13.9	-	15.5
Balance at December 31, 2014	$ 45.1	$ 1,557.9	$ 1,537.7	$ 223.3	$ 3,364.0
Additions[1]	-	70.1	134.1	19.8	224.0
Acquisitions (Note 30)	4.1	-	165.9	0.7	170.7
Disposals	(1.7)	(42.7)	(88.6)	(14.1)	(147.1)
Effect of movements in exchange rates	4.0	-	54.6	0.2	58.8
Balance at December 31, 2015	$ 51.5	$ 1,585.3	$ 1,803.7	$ 229.9	$ 3,670.4
Amortization and impairment losses					
Balance at January 1, 2014	$ (7.0)	$ (985.0)	$ (929.8)	$ (174.8)	$ (2,096.6)
Amortization for the year	-	(64.0)	(94.1)	(5.0)	(163.1)
Disposals	3.0	10.0	106.7	0.8	120.5
Effect of movements in exchange rates	-	-	(8.7)	-	(8.7)
Balance at December 31, 2014	$ (4.0)	$ (1,039.0)	$ (925.9)	$ (179.0)	$ (2,147.9)
Amortization for the year	-	(64.8)	(118.5)	(7.6)	(190.9)
Disposals	1.5	42.0	86.0	13.2	142.7
Impairment losses	-	-	(4.6)	-	(4.6)
Effect of movements in exchange rates	-	-	(24.6)	-	(24.6)
Balance at December 31, 2015	$ (2.5)	$ (1,061.8)	$ (987.6)	$ (173.4)	$ (2,225.3)
Carrying amounts					
At January 1, 2014	$ 39.8	$ 524.1	$ 563.4	$ 24.6	$ 1,151.9
At December 31, 2014	$ 41.1	$ 518.9	$ 611.8	$ 44.3	$ 1,216.1
At December 31, 2015	**$ 49.0**	**$ 523.5**	**$ 816.1**	**$ 56.5**	**$ 1,445.1**

[1]Net of capital expenditures by CPPI that are financed by government grants.
[2]Solid Wood plants include those sawmills, pellet plants, engineered wood products plants, chip plants, plywood and oriented strand board plants that are consolidated on a line-by-line basis.

Included in the above are assets under construction in the amount of $48.6 million (2014 - $82.3 million), which as at December 31, 2015 have not been amortized.

7. Timber Licenses

(millions of Canadian dollars)	
Cost	
Balance at January 1, 2014	$ 824.3
Additions	-
Disposals	-
Balance at December 31, 2014	824.3
Additions	11.1
Disposals	-
Balance at December 31, 2015	$ 835.4
Amortization and impairment losses	
Balance at January 1, 2014	$ (289.7)
Amortization for the year	(15.1)
Disposals	-
Balance at December 31, 2014	(304.8)
Amortization for the year	(15.4)
Disposals	-
Balance at December 31, 2015	$ (320.2)
Carrying amounts	
At January 1, 2014	$ 534.6
At December 31, 2014	$ 519.5
At December 31, 2015	**$ 515.2**

Additions of $11.1 million during 2015 related to the acquisition of a renewable forest license in the Kootenays of British Columbia.

8. Goodwill and Other Intangible Assets

(millions of Canadian dollars)	Goodwill	Other Intangible Assets	Total
Cost			
Balance at January 1, 2014	$ 74.4	$ 64.1	$ 138.5
Additions	-	9.7	9.7
Disposals	-	(0.5)	(0.5)
Effect of movement in exchange rates	6.8	2.5	9.3
Balance at December 31, 2014	$ 81.2	$ 75.8	$ 157.0
Additions	-	9.2	9.2
Acquisitions (Note 30)	108.2	0.3	108.5
Disposals	-	(0.8)	(0.8)
Effect of movement in exchange rates	26.1	6.3	32.4
Balance at December 31, 2015	$ 215.5	$ 90.8	$ 306.3
Amortization			
Balance at January 1, 2014	$ -	$ (45.0)	$ (45.0)
Amortization for the year	-	(5.1)	(5.1)
Disposals	-	0.2	0.2
Effect of movement in exchange rates	-	(2.1)	(2.1)
Balance at December 31, 2014	$ -	$ (52.0)	$ (52.0)
Amortization for the year	-	(8.0)	(8.0)
Effect of movement in exchange rates	-	(5.3)	(5.3)
Balance at December 31, 2015	$ -	$ (65.3)	$ (65.3)
Carrying amounts			
At January 1, 2014	$ 74.4	$ 19.1	$ 93.5
At December 31, 2014	$ 81.2	$ 23.8	$ 105.0
At December 31, 2015	**$ 215.5**	**$ 25.5**	**$ 241.0**

Goodwill relates to Canfor's US subsidiaries (New South, Scotch Gulf, Beadles & Balfour, Southern Lumber, and Anthony) and is denominated in US dollars. Goodwill is allocated separately to each acquired business and tested at that level for impairment purposes. The recoverable amount of the goodwill is determined for each past acquisition based on an assessment of the value in use that is estimated using a discounted cash flow model.

As part of the goodwill impairment assessment, assumptions are made in relation to forecast prices and exchange rates. Key assumptions used in the cash flow models included forecast prices and foreign exchange rates which the Company's management determined with reference to external publications. A pre-tax discount rate of 11.0% and cost inflation rate of 2.0% were used for the purpose of the calculation in 2015 consistent with the calculation in 2014. The net present value of the future expected cash flows is compared to the carrying value of the Company's investment in these assets, including goodwill, at year end.

Based upon management's analysis, no impairment of goodwill was required in 2015 or 2014.

9. Long-Term Investments and Other

(millions of Canadian dollars)		**As at December 31, 2015**		As at December 31, 2014
Investments	**$**	**16.2**	$	64.4
Conifex timber investment loan		**30.5**		-
Equity investment in Anthony EACOM Inc.		**16.2**		-
Lakeland Winton receivable		**15.0**		-
Term loan to Scotch Gulf (Note 30)		**-**		23.2
Other deposits, loans and advances		**20.7**		13.7
	$	**98.6**	$	101.3

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

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

During 2015, the Company completed an investment agreement with Conifex Inc. ("Conifex"), a subsidiary of Conifex Timber Inc. As part of the agreement, Conifex issued a five-year senior secured note payable to Canfor in the amount of $30.0 million, secured by a forest license located in British Columbia with 200,000 cubic metres of annual allowable cut. Subsequent to December 31, 2015, Canfor exercised its option to convert the loan into an ownership interest in the forest license.

As part of the acquisition of Anthony, which was completed on October 30, 2015, Canfor acquired a 50% interest in Anthony EACOM Inc., which owns an I-joist facility in Sault St. Marie, Ontario. Canfor's investment in Anthony EACOM Inc. is classified as a joint venture and is accounted for using the equity method of accounting. Since the acquisition, the Company's share of the joint venture's sales was $3.8 million and net income was $0.6 million. At December 31, 2015, the carrying value of the equity investment is $16.2 million.

10. Accounts Payable and Accrued Liabilities

(millions of Canadian dollars)	**As at December 31, 2015**	As at December 31, 2014
Trade payables and accrued liabilities	**$ 201.1**	$ 170.6
Accrued payroll and related liabilities	**103.9**	84.3
Restructuring, mill closure and severance costs	**11.5**	8.3
Income taxes payable	**-**	15.1
Other	**33.8**	27.5
	$ 350.3	$ 305.8

11. Operating Loans

(millions of Canadian dollars)	**As at December 31, 2015**	As at December 31, 2014
Canfor (excluding CPPI)		
Available Operating Loans:		
Operating loan facility - Canfor	**$ 350.0**	$ 350.0
Facility for letters of credit - Canfor	**39.7**	37.5
Total operating loans - Canfor	**389.7**	387.5
Operating loan drawn	**(158.0)**	(68.0)
Letters of credit	**(39.7)**	(13.8)
Total available operating loans - Canfor (excluding CPPI)	**$ 192.0**	$ 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	**(13.0)**	(12.2)
Total available operating loans - CPPI	**$ 117.0**	$ 117.8
Consolidated:		
Total operating loans	**$ 519.7**	$ 517.5
Total available operating loans	**$ 309.0**	$ 423.5

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

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

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

Canfor (excluding CPPI) has a separate facility to cover letters of credit. At December 31, 2015, $36.0 million of letters of credit are covered under this facility with the balance of $3.7 million covered under Canfor's general operating loan facility.

CPPI has a separate facility to cover letters of credit. During 2015, CPPI extended the maturity on this facility to June 30, 2016. At December 31, 2015, $9.4 million of letters of credit are covered under this facility with the balance of $3.6 million covered under CPPI's general operating loan facility.

As at December 31, 2015, the Company and CPPI are 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.

12. Long-Term Debt

Canfor has the following long-term debt, all of which is unsecured:

Summary of long-term debt

(millions of Canadian dollars)		**As at December 31, 2015**		As at December 31, 2014
Privately placed senior notes				
Canfor Corporation				
CAD$125.0 million, floating interest, repayable September 28, 2020	**$**	**125.0**	$	-
US$100.0 million, floating interest, repayable September 28, 2023		**138.4**		-
US$100.0 million, fixed interest of 4.40%, repayable in three tranches on October 2023, 2024 and 2025		**138.4**		-
CAD$100.0 million, floating interest, repayable February 13, 2017		**-**		100.0
CAD$75.0 million, floating interest, repayable November 14, 2019		**-**		75.0
Other[3]		**4.4**		3.6
Canfor Pulp Products Inc.				
CAD$50.0 million, floating interest, repayable November 5, 2018		**50.0**		50.0
	$	**456.2**	$	228.6

[3]Amount relates to net financing for specific capital projects at Canfor's US sawmills.

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

On October 2, 2015, the Company issued US$100.0 million of senior unsecured notes, bearing interest at 4.40%. The notes mature in three tranches with US$33.3 million due on each of October 2, 2023 and October 2, 2024 with the balance due on October 2, 2025.

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

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

As at December 31, 2015, the Company and CPPI are in compliance with all covenants relating to their long-term debt.

Fair value of total long-term debt

At December 31, 2015, the fair value of the Company's long-term debt is $448.1 million (2014 - $228.6 million).

13. Employee Future Benefits

The Company has several funded and unfunded defined benefit pension plans, as well as defined contribution plans, that provide pension, other retirement and post-employment benefits to substantially all salaried employees and certain hourly employees. The defined benefit pension plans are based on years of service and final average salary. Canfor's other post-retirement benefit plans are non-contributory and include a range of health care and other benefits. Canfor also provides pension bridge benefits to certain eligible former employees.

Total cash payments for employee future benefits, net of withdrawals, for 2015 were $37.1 million (2014 - $56.2 million), consisting of cash contributed by Canfor to its funded pension plans, cash payments directly to beneficiaries for its unfunded other benefit plans, cash contributed to its defined contribution plans, and cash contributed to forest industry union defined benefit plans.

Defined benefit plans

Canfor measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at December 31 of each year.

As at December 31, 2015, Canfor has three registered defined benefit pension plans for which actuarial valuations are performed every three years. The largest pension plan underwent an actuarial valuation for funding purposes as of December 31, 2013. The next actuarial valuation for funding purposes is currently scheduled for December 31, 2016. In addition, Canfor has a non-contributory plan that provides certain non-pension post-retirement benefits to its members. The non-contributory plan underwent an actuarial valuation for funding purposes in 2013, and is currently undergoing an actuarial valuation as at December 31, 2015, which will be completed in 2016.

Information about Canfor's defined benefit plans, in aggregate, is as follows:

Fair Market Value of Plan Assets

	2015		2014	
(millions of Canadian dollars)	**Pension Benefit Plans**	**Other Benefit Plans**	Pension Benefit Plans	Other Benefit Plans
Beginning of year	**$ 707.7**	**$ -**	$ 669.7	$ -
Interest income on plan assets	**27.0**	-	32.1	-
Return on plan assets greater than discount rate	**2.0**	-	25.8	-
Employer contributions	**17.4**	5.2	23.6	5.2
Employee contributions	**0.5**	-	0.5	-
Benefit payments	**(46.0)**	(5.2)	(42.2)	(5.2)
Withdrawals	**(18.6)**	-	-	-
Administration expenses	**(0.7)**	-	(1.8)	-
End of year	**$ 689.3**	**$ -**	$ 707.7	$ -

Plan assets consist of the following:	**As at December 31, 2015**	As at December 31, 2014
	Percentage of Plan Assets	
Asset category		
Equity securities	**22%**	21%
Debt securities	**77%**	77%
Cash and cash equivalents and other	**1%**	2%
	100%	100%

Accrued Benefit Obligations

	2015		2014	
(millions of Canadian dollars)	**Pension Benefit Plans**	**Other Benefit Plans**	Pension Benefit Plans	Other Benefit Plans
Beginning of year	**$ 787.4**	**$ 177.5**	$ 671.9	$ 154.3
Current service cost	**9.5**	**3.5**	9.3	2.7
Interest cost	**29.9**	**6.7**	31.3	7.2
Employee contributions	**0.5**	**-**	0.5	-
Benefit payments	**(46.0)**	**(5.2)**	(42.2)	(5.2)
Plan amendments	**3.2**	**-**	-	-
Actuarial loss (gain)	**(11.3)**	**(16.2)**	116.6	18.9
Other	**-**	**(1.1)**	-	(0.4)
End of year	**$ 773.2**	**$ 165.2**	$ 787.4	$ 177.5

Of the defined benefit plan obligations of $773.2 million (2014 - $787.4 million), $701.3 million (2014 - $758.4 million) relates to plans that are wholly or partly funded and $71.9 million (2014 - $29.0 million) relates to plans that are wholly unfunded. At December 31, 2015, certain liabilities for pension benefit plans were secured by a letter of credit in the amount of $36.9 million (2014 - $9.3 million).

The total obligation for the other benefit plans of $165.2 million (2014 - $177.5 million) is unfunded.

Reconciliation of Funded Status of Benefit Plans to Amounts Recorded in the Financial Statements

(millions of Canadian dollars)	**December 31, 2015** Pension Benefit Plans	**December 31, 2015** Other Benefit Plans	December 31, 2014 Pension Benefit Plans	December 31, 2014 Other Benefit Plans
Fair market value of plans assets	**$ 689.3**	**$ -**	$ 707.7	$ -
Accrued benefit obligations	**(773.2)**	**(165.2)**	(787.4)	(177.5)
Funded status of plans – deficit	**$ (83.9)**	**$ (165.2)**	$ (79.7)	$ (177.5)
Other pension plans	**(6.8)**	**-**	(5.4)	-
Total accrued benefit liability, net	**$ (90.7)**	**$ (165.2)**	$ (85.1)	$ (177.5)

The net accrued benefit liability is included in Canfor's balance sheet as follows:

(millions of Canadian dollars)	**December 31, 2015** Pension Benefit Plans	**December 31, 2015** Other Benefit Plans	December 31, 2014 Pension Benefit Plans	December 31, 2014 Other Benefit Plans
Retirement benefit surplus	**$ 2.7**	**$ -**	$ 0.6	$ -
Retirement benefit obligations	**(93.4)**	**(165.2)**	(85.7)	(177.5)
Total accrued benefit liability, net	**$ (90.7)**	**$ (165.2)**	$ (85.1)	$ (177.5)

At December 31, 2015, certain post-employment defined benefit pension plans are in a surplus position reflecting the return on plan assets, actuarial gains and employer contributions to the pension plans during 2015. The plans with a net retirement surplus have been classified as non-current assets on the balance sheet.

Components of pension cost

The following table shows the before tax impact on net income and other comprehensive income of the Company's pension and other defined benefit plans:

(millions of Canadian dollars)	**2015** Pension Benefit Plans	**2015** Other Benefit Plans	2014 Pension Benefit Plans	2014 Other Benefit Plans
Recognized in net income				
Current service cost	**$ 9.5**	**$ 3.5**	$ 9.3	$ 2.7
Administration expenses	**1.4**	**-**	0.8	-
Interest cost	**2.9**	**6.7**	(0.8)	7.2
Plan amendments	**3.2**	**-**	-	-
Other	**-**	**(1.1)**	-	(0.4)
Total included in net income	**$ 17.0**	**$ 9.1**	$ 9.3	$ 9.5
Recognized in other comprehensive income				
Actuarial loss (gain) – experience	**$ 6.0**	**$ 5.0**	$ 21.5	$ (1.0)
Actuarial loss – demographic assumptions	**-**	**-**	15.7	4.1
Actuarial loss (gain) – financial assumptions	**(17.3)**	**(21.2)**	79.4	15.8
Return on plan assets greater than discount rate	**(2.0)**	**-**	(25.8)	-
Administrative costs greater (less) than expected	**(0.7)**	**-**	1.0	-
Other	**-**	**1.8**	-	5.0
Total included in other comprehensive income	**$ (14.0)**	**$ (14.4)**	$ 91.8	$ 23.9

Significant assumptions

The actuarial assumptions used in measuring Canfor's benefit plan provisions and benefit costs are as follows:

	December 31, 2015		December 31, 2014	
	Pension Benefit Plans	**Other Benefit Plans**	Pension Benefit Plans	Other Benefit Plans
Discount rate	**4.1%**	**4.1%**	3.9%	3.9%
Rate of compensation increases	**3.0%**	**n/a**	3.0%	n/a
Future salary increases	**2.5%**	**n/a**	2.5%	n/a
Initial medical cost trend rate	**n/a**	**7.0%**	n/a	7.0%
Ultimate medical cost trend rate	**n/a**	**4.5%**	n/a	4.5%
Year ultimate rate is reached	**n/a**	**2021**	n/a	2021

In addition to the significant assumptions listed in the table above, the average life expectancy of a 65 year old at December 31, 2015 is between 20.9 years and 24.0 years (2014 - 20.7 years and 24.0 years). As at December 31, 2015, the weighted average duration of the defined benefit obligation, which reflects the average age of the plan members, is 12.0 years (2014 - 12.4 years). The weighted average duration of the other benefit plans is 14.3 years (2014 - 13.9 years).

Sensitivity analysis

Assumed discount rates and medical cost trend rates have a significant effect on the accrued benefit obligation. A one percentage point change in these assumptions would have the following effects on the accrued benefit obligation for 2015:

(millions of Canadian dollars)	1% Increase	1% Decrease
Pension benefit plans		
Discount rate	$ (81.6)	$ 102.1
Other benefit plans		
Discount rate	$ (21.1)	$ 26.3
Initial medical cost trend rate	$ 18.2	$ (15.3)

As at December 31, 2015, Canfor estimated that it will make contribution payments of $15.2 million to its defined benefit plans in 2016 based on the last actuarial valuation for funding purposes.

Defined contribution and other plans

The total expense recognized in 2015 for Canfor's defined contribution plans was $10.2 million (2014 - $6.7 million).

Canfor contributes to various forest industry union defined benefit pension plans providing both pension and other retirement benefits. These plans are accounted for as defined contribution plans. Contributions to these plans, not included in the expense for defined contribution plans above, amounted to $21.9 million in 2015 (2014 - $20.7 million).

14. Deferred Reforestation Obligations

The following table provides a reconciliation of the deferred reforestation obligations as at December 31, 2015 and 2014:

(millions of Canadian dollars)		2015		2014
Reforestation obligations at beginning of year	$	**112.1**	$	113.9
Expense for year		**44.1**		37.2
Accretion expense		**0.8**		1.2
Additions		**3.8**		-
Changes in estimates		**0.3**		2.8
Paid during the year		**(48.8)**		(43.0)
Reforestation obligations at end of year	$	**112.3**	$	112.1
Less: current portion		**(50.7)**		(52.1)
Long-term portion	$	**61.6**	$	60.0

The total undiscounted amount of the estimated cash flows required to settle the obligations at December 31, 2015 is $115.1 million (2014 - $116.1 million) with payments spread over 15 years. Due to the general long-term nature of the liability, the most significant area of uncertainty in estimating the provision is the future costs that will be incurred. The estimated cash flows have been adjusted for inflation and discounted using risk-free rates ranging from 0.5% to 2.1% at December 31, 2015.

Additions of $3.8 million during 2015 related to the deferred reforestation obligation assumed by Canfor on the acquisition of a forest license in the Kootenays.

15. Asset Retirement Obligations

The following table provides a reconciliation of the asset retirement obligations as at December 31, 2015 and 2014:

(millions of Canadian dollars)		2015		2014
Asset retirement obligations at beginning of year	$	**7.4**	$	6.5
Accretion expense		**0.1**		0.1
Changes in estimates		**0.5**		0.8
Asset retirement obligations at end of year	$	**8.0**	$	7.4

Canfor's asset retirement obligations include $5.5 million in relation to landfill closure costs at CPPI. This obligation represents estimated undiscounted future payments of $9.3 million to remediate landfills at the operations at the end of their useful lives. The payments are expected to occur at periods ranging from 7 to 36 years and have been discounted at risk-free rates ranging from 1.0% to 2.2%.

Canfor has certain assets that have indeterminable retirement dates and, therefore, there is an indeterminate settlement date for the related asset retirement obligations. As a result, no asset retirement obligations are recorded for these assets. These assets include wastewater and effluent ponds that will have to be drained once the related operating facility is closed and storage sites for which removal of chemicals, fuels and other related materials will be required once the related operating facility is closed. When the retirement dates of these assets become determinable and an estimate of fair value can be made, an asset retirement obligation will be recorded.

It is possible that changes in future conditions could require a material change in the recognized amount of the asset retirement obligations. The asset retirement obligations balance is included in other long-term liabilities on the balance sheet.

16. Restructuring, Mill Closure and Severance Costs

Restructuring, mill closure and severance costs represent costs associated with the indefinite or permanent closures of facilities and staff reductions. The expense for the year ended December 31, 2015 amounted to $24.7 million (2014 - $6.8 million). The 2015 expense in the lumber segment principally related to closure costs at the Canal Flats sawmill, which was permanently closed in November 2015.

The following table provides a breakdown of the restructuring, mill closure and severance costs by business segment:

(millions of Canadian dollars)		**2015**		2014
Lumber	**$**	**21.4**	$	3.6
Pulp & Paper		**-**		-
Unallocated and Other		**3.3**		3.2
	$	**24.7**	$	6.8

The following table provides a reconciliation of the restructuring, mill closure and severance liability for the years ended December 31, 2015 and 2014:

(millions of Canadian dollars)		**2015**		2014
Accrued liability at beginning of year	**$**	**8.7**	$	24.6
Costs accrued in the year		**19.8**		-
Paid during the year		**(14.8)**		(15.9)
Accrued liability at end of year	**$**	**13.7**	$	8.7

At December 31, 2015, $2.2 million of the restructuring, mill closure and severance liability is non-current (2014 - $0.4 million).

17. Share Capital

Authorized

10,000,000 preferred shares, with a par value of $25 each
1,000,000,000 common shares without par value

Issued and Fully Paid

(millions of Canadian dollars, except number of shares)	**2015**			2014		
	Number of Shares		**Amount**	Number of Shares		Amount
Common shares at beginning of year	**135,376,993**	**$**	**1,068.0**	139,904,593	$	1,103.7
Shares purchased	**(2,572,420)**		**(20.3)**	(4,527,600)		(35.7)
Common shares at end of year	**132,804,573**	**$**	**1,047.7**	135,376,993	$	1,068.0

The holders of common shares are entitled to vote at all meetings of shareholders of the Company, except meetings at which only holders of preferred shares would be entitled to vote. The common shareholders are entitled to receive dividends as and when declared on the common shares. The holders of preferred shares are not generally entitled to receive notice of, or to attend or vote at, general meetings of shareholders of the Company. Preferred shareholders are entitled to preference over the common shares with respect to payment of dividends and upon any distribution of assets in the event of liquidation, dissolution and winding-up of the Company. The Company does not have any preferred shares outstanding.

Basic net income per share is calculated by dividing the net income available to common shareholders by the weighted average number of common shares outstanding during the period. The weighted average number of common shares outstanding for 2015 was 134,068,255 (2014 - 137,293,281), and reflected shares purchased under the Company's Normal Course Issuer Bid.

Normal Course Issuer Bid

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. In 2015, Canfor purchased 2,572,420 common shares for $59.2 million (an average price of $23.01 per common share), of which $20.3 million was charged to share capital and $38.9 million charged to retained earnings. Under a separate normal course issuer bid, CPPI purchased common shares from non-controlling shareholders increasing Canfor's ownership of CPPI from 50.5% at December 31, 2014 to 51.9% at December 31, 2015.

In 2014, under a previous normal course issuer bid, Canfor purchased 4,527,600 common shares for $108.9 million (an average price of $24.05 per common share), of which $35.7 million was charged to share capital and $73.2 million charged to retained earnings.

18. Non-Controlling Interests

The following table summarizes the non-controlling financial information for the Company's lumber operations and CPPI before inter-company eliminations:

Summarized Balance Sheet: Amounts presented below represent non-controlling % (millions of Canadian dollars)	As at December 31, 2015			As at December 31, 2014
	Lumber[4]	CPPI[5]	**Total**	CPPI[5]
Current assets	$ 31.7	$ 148.3	**$ 180.0**	$ 149.7
Non-current assets	57.7	256.5	**314.2**	259.8
Total assets	$ 89.4	$ 404.8	**$ 494.2**	$ 409.5
Current liabilities	$ 20.8	$ 69.4	**$ 90.2**	$ 61.0
Non-current liabilities	2.6	104.6	**107.2**	106.2
Total liabilities	$ 23.4	$ 174.0	**$ 197.4**	$ 167.2
Total equity	$ 66.0	$ 230.8	**$ 296.8**	$ 242.3
Total liabilities and equity	$ 89.4	$ 404.8	**$ 494.2**	$ 409.5

Summarized Statements of Income and Other Comprehensive Income: Amounts presented below represent non-controlling % (millions of Canadian dollars)	Year ended December 31, 2015			Year ended December 31, 2014
	Lumber[4]	CPPI[5]	**Total**	CPPI[5]
Sales	$ 154.7	$ 574.5	**$ 729.2**	$ 486.0
Net income	15.1	52.1	**67.2**	44.4
Other comprehensive income	-	2.7	**2.7**	(9.5)
Total comprehensive income	$ 15.1	$ 54.8	**$ 69.9**	$ 34.9
Dividends paid to non-controlling interest	$ 9.6	$ 47.2	**$ 56.8**	$ 8.3

Summarized Statements of Cash Flow: Amounts presented below represent non-controlling % (millions of Canadian dollars)	Year ended December 31, 2015			Year ended December 31, 2014
	Lumber[4]	CPPI[5]	**Total**	CPPI[5]
Cash flows from operating activities	$ 22.1	$ 70.0	**$ 92.1**	$ 75.9
Cash flows from financing activities	$ (7.8)	$ (59.9)	**$ (67.7)**	$ (16.2)
Cash flows from investing activities	$ (9.3)	$ (38.6)	**$ (47.9)**	$ (28.4)

[4]Lumber non-controlling interest includes non-controlling interest related to Scotch Gulf (50%), Beadles & Balfour (45%), Houston Pellet Limited Partnership (40%), and the Fort St. John and Chetwynd pellet plants (5%).

[5]In 2015, CPPI purchased shares from non-controlling CPPI shareholders under a normal course issuer bid increasing Canfor's ownership of CPPI from 50.5% at December 31, 2014 to 51.9% at December 31, 2015 with CPPI's non-controlling interest decreasing by a corresponding amount throughout 2015. Amounts at and for the year ending December 31, 2014 exclude non-controlling interest information related to the Company's Houston Pellet Limited Partnership.

19. Share-Based Compensation

The value of the Company's DSUs, when redeemed, is equal to the market value of the shares on the redemption date, including the value of dividends paid on the Company's common shares, if any, as if they had been reinvested in additional DSUs on each payment date. The DSUs may only be redeemed upon a director's retirement from the Company, its subsidiaries or any affiliated entity. Effective July 27, 2011, the Board determined to cease the issuance of DSUs for non-employee directors. The total recovery recorded in relation to the DSUs for 2015 was $1.0 million due to the revaluation of existing units (2014 - expense of $0.9 million). The value of outstanding DSUs at December 31, 2015 is $2.2 million (2014 - $3.3 million).

20. Finance Expense, Net

(millions of Canadian dollars)	2015	2014
Interest expense on borrowings	**$ (15.4)**	$ (11.8)
Interest expense on retirement benefit obligations, net	**(9.8)**	(6.4)
Interest income	**1.3**	1.3
Other	**(1.0)**	(1.3)
Finance expense, net	**$ (24.9)**	$ (18.2)

For the year ended December 31, 2015, net finance expense related substantially to interest expense on term debt, net interest expense on retirement benefit obligations and interest expense related to the Company's operating loan facility.

21. Income Taxes

The components of income tax expense are as follows:

(millions of Canadian dollars)	2015	2014
Current	**$ (32.6)**	$ (50.4)
Deferred	**14.1**	(25.8)
Income tax expense	**$ (18.5)**	$ (76.2)

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

(millions of Canadian dollars)	2015	2014
Income tax expense at statutory rate 2015 - 26.0% (2014 - 26.0%)	**$ (28.7)**	$ (77.5)
Add (deduct):		
Entities with different income tax rates and other tax adjustments	**6.6**	0.8
Non-taxable income related to non-controlling interests	**3.9**	0.6
Permanent difference from capital gains and losses and other non-deductible items	**(0.3)**	(0.1)
Income tax expense	**$ (18.5)**	$ (76.2)

In addition to the amounts recorded to net income, a tax expense of $7.3 million was recorded to other comprehensive income for the year ended December 31, 2015 (2014 - recovery of $30.5 million) in relation to actuarial gains on defined benefit employee compensation plans. Also included in other comprehensive income for the year is tax expense of $6.0 million related to foreign exchange differences on translation of investments in foreign operations (2014 - expense of $2.4 million).

The tax effects of the significant components of temporary differences that give rise to deferred income tax assets and liabilities are as follows:

(millions of Canadian dollars)	**As at December 31, 2015**	As at December 31, 2014
Deferred income tax assets		
Accruals not currently deductible	**$ 42.9**	$ 38.6
Loss carryforwards	**18.0**	6.4
Retirement benefit obligations	**61.8**	65.5
Goodwill and other intangible assets, net	**28.8**	-
Other	**6.3**	5.8
	$ 157.8	$ 116.3
Deferred income tax liabilities		
Depreciable capital assets	**$ (332.3)**	$ (310.2)
Goodwill and other intangible assets	**-**	(4.8)
Other	**(16.6)**	(11.5)
	$ (348.9)	$ (326.5)
Total deferred income taxes, net	**$ (191.1)**	$ (210.2)
Less: Entities in a net deferred tax asset position	**1.2**	1.7
Deferred income taxes liability, net	**$ (192.3)**	$ (211.9)

Deferred income tax assets are recognized for tax loss carry-forwards to the extent that the realization of the related tax benefit through future taxable profits is probable. This assumption is based on management's best estimate of future circumstances and events. If these estimates and assumptions changed in the future, the value of the deferred income tax assets could be reduced, resulting in an income tax expense.

22. Net Change in Non-Cash Working Capital

(millions of Canadian dollars)	**2015**	2014
Accounts receivable	**$ (76.7)**	$ 24.2
Inventories	**(22.9)**	(64.0)
Prepaid expenses and other assets	**10.6**	(15.8)
Accounts payable, accrued liabilities and current portion of deferred reforestation obligations	**22.7**	(18.0)
Net increase in non-cash working capital	**$ (66.3)**	$ (73.6)

23. Related Party Transactions

Canfor undertakes transactions with various related entities. These transactions are in the normal course of business and are generally on the same terms as those accorded to unrelated third parties, except where noted otherwise.

The Company purchases chips, lumber and logs from Lakeland Winton. Prior to Canfor's sale of its 33.3% interest in Lakeland Winton, it purchased $2.0 million in chips and logs (2014 - $1.6 million).

Canfor has a term loan arrangement with Scotch Gulf. In 2015, the Company completed the third phase of the acquisition, resulting in consolidation of Scotch Gulf (Note 30). In the prior year, as at December 31, 2014, $23.2 million was outstanding on the term loan.

Key Management Personnel

Key management includes members of the Board of Directors and the Senior Executive management team. The compensation expense for key management for services is as follows:

(millions of Canadian dollars)	**2015**	2014
Short-term benefits	**$ 7.3**	$ 7.4
Post-employment benefits	**0.2**	0.6
Termination benefits	**0.7**	-
Share-based payments	**(1.0)**	0.9
	$ 7.2	$ 8.9

Short-term benefits for members of the Board of Directors include an annual retainer as well as attendance fees.

Other Related Parties

During 2015, Canfor made contributions to certain post-employment benefit plans for the benefit of Canfor employees. Note 13 Employee Future Benefits contains further details.

The Jim Pattison Group is Canfor's largest shareholder. During 2015, subsidiaries owned by the Jim Pattison Group provided lease, insurance and other services to Canfor at market rates totalling $4.8 million (2014 - $2.0 million) with $0.5 million outstanding at December 31, 2015 (2014 - nil).

24. Segment Information

Canfor has two reportable segments, as described below, which offer different products and are managed separately because they require different production processes and marketing strategies. The following summary describes the operations of each of the Company's reportable segments:

- *Lumber* – Includes logging operations, and manufacture and sale of various grades, widths and lengths of lumber, engineered wood products, wood chips and wood pellets; and
- *Pulp and Paper* – Includes purchase of residual fibre, and production and sale of pulp and paper products, including Northern Bleached Softwood Kraft ("NBSK") and Bleached Chemi-Thermo Mechanical Pulp ("BCTMP") as well as energy revenues. This segment includes 100% of CPPI.

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.

Information regarding the operations of each reportable segment is included in the table below. The accounting policies of the reportable segments are the same as described in Note 3.

The Company's interest-bearing liabilities are not considered to be segment liabilities but rather are managed centrally by the treasury function. Other liabilities are not split by segment for the purposes of allocating resources and assessing performance.

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

(millions of Canadian dollars)		Lumber	Pulp & Paper	Unallocated & Other	Elimination Adjustment		Consolidated
Year ended December 31, 2015							
Sales to external customers	**$**	**2,740.1**	**1,185.2**	**-**	**-**	**$**	**3,925.3**
Sales to other segments	**$**	**168.2**	**-**	**-**	**(168.2)**	**$**	**-**
Operating income (loss)	**$**	**30.2**	**144.8**	**(33.4)**	**-**	**$**	**141.6**
Amortization	**$**	**144.1**	**65.4**	**4.5**	**-**	**$**	**214.0**
Capital expenditures[6]	**$**	**161.7**	**68.3**	**10.0**	**-**	**$**	**240.0**
Identifiable assets	**$**	**2,259.9**	**823.9**	**210.8**	**-**	**$**	**3,294.6**
Year ended December 31, 2014							
Sales to external customers	$	2,245.1	1,102.5	-	-	$	3,347.6
Sales to other segments	$	148.0	-	-	(148.0)	$	-
Operating income (loss)	$	230.7	129.9	(31.3)	-	$	329.3
Amortization	$	115.1	64.6	2.8	-	$	182.5
Capital expenditures[6]	$	166.6	58.0	9.7	-	$	234.3
Identifiable assets	$	1,856.7	768.1	222.0	-	$	2,846.8

[6]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 year ended December 31, 2015 exclude the assets purchased as part of the acquisitions of Scotch Gulf, Beadles & Balfour, Southern Lumber and Anthony (Note 30).

Geographic information

Canfor operates manufacturing facilities in both Canada and the US. Canfor's products are marketed worldwide, with sales made to customers in a number of different countries. In presenting information on the basis of geographical location, sales is based on the geographical location of customers and assets are based on the geographical location of the assets.

(millions of Canadian dollars)		**2015**		2014
Sales by location of customer				
Canada	**$**	**468.3**	$	432.4
Asia		**1,222.8**		1,165.7
United States		**2,076.9**		1,582.9
Europe		**97.0**		109.6
Other		**60.3**		57.0
	$	**3,925.3**	$	3,347.6

(millions of Canadian dollars)		**As at December 31, 2015**		As at December 31, 2014
Capital assets and goodwill by location				
Canada	**$**	**1,666.0**	$	1,651.3
United States		**509.7**		165.4
Asia and Other		**0.1**		0.1
	$	**2,175.8**	$	1,816.8

25. Commitments

At the end of the year, Canfor had contractual commitments primarily for the acquisition and construction of property, plant and equipment for $40.6 million (2014 - $71.1 million). The majority of these commitments are expected to be settled over the following year. At December 31, 2015, Canfor also has a commitment to purchase the remaining 50% of Scotch Gulf and 45% of Beadles & Balfour for a cumulative amount of US$86.0 million excluding working capital and various lease arrangements (Note 30).

In addition, Canfor has committed to operating leases for property, plant and equipment with future minimum lease payments under these operating leases as follows:

(millions of Canadian dollars)		**As at December 31, 2015**		As at December 31, 2014
Within one year	**$**	**11.4**	$	8.6
Between one and five years		**22.3**		17.5
After five years		**8.2**		7.9
Total	**$**	**41.9**	$	34.0

During the year ended December 31, 2015, $16.3 million (2014 - $13.6 million) was recognized as an expense for operating leases.

26. Financial Risk and Capital Management

Financial Risk Management

Canfor is exposed to a number of risks as a result of holding financial instruments. These risks include credit risk, liquidity risk and market risk.

Canfor's Risk Management Committee manages risk in accordance with a Board approved Price Risk Management Controls Policy. This policy provides the framework for risk management related to commodity price, foreign exchange, interest rate and counterparty credit risk of Canfor.

Credit risk:

Credit risk is the risk of financial loss to Canfor if a counterparty to a financial instrument fails to meet its contractual obligations.

Financial instruments that are subject to credit risk include cash and cash equivalents, accounts receivable, and long-term investments. Cash and cash equivalents includes cash held through major Canadian and international financial institutions as well as temporary investments with an original maturity date of three months or less. The cash and cash equivalents balance at December 31, 2015 is $97.5 million (2014 - $158.3 million).

Canfor utilizes credit insurance to mitigate the risk associated with some of its trade receivables. As at December 31, 2015, approximately 43% (2014 - 55%) of the outstanding trade receivables are covered by credit insurance. Canfor's trade receivable balance at December 31, 2015 is $196.3 million before an allowance for doubtful accounts of $4.5 million (2014 - $95.0 million and $3.7 million, respectively). At December 31, 2015, approximately 94% (2014 - 99%) of the trade accounts receivable balance are within Canfor's established credit terms.

Liquidity risk:

Liquidity risk is the risk that Canfor will be unable to meet its financial obligations as they come due. Canfor manages liquidity risk through regular cash-flow forecasting in conjunction with an adequate committed operating loan facility.

At December 31, 2015, Canfor has $158.0 million drawn on its operating loans (2014 - $68.0 million), and accounts payable and accrued liabilities of $350.3 million (2014 - $305.8 million) all of which are due within twelve months of the balance sheet date.

Market risk:

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates, foreign currency, energy and commodity prices.

(i) Interest rate risk:

Canfor is exposed to interest rate risk through its current financial assets and financial obligations bearing variable interest rates.

Canfor utilizes interest rate swaps to reduce its exposure to interest rate risk associated with financial obligations bearing variable interest rates. At December 31, 2015, Canfor has $100.0 million (2014 - $135.0 million) in fixed interest rate swaps with interest ranging from 1.55% to 1.75% and maturing in 2017.

(ii) Currency risk:

Canfor is exposed to foreign exchange risk primarily related to the US dollar, as Canfor's products are sold principally in US dollars. In addition, Canfor holds financial assets and liabilities primarily related to its US entities in US dollars.

An increase (decrease) in the value of the Canadian dollar by US$0.01 would result in a pre-tax: (i) loss (gain) of approximately $1.9 million in relation to working capital balances denominated in US dollars at year end (including cash, accounts receivable and accounts payable); and a (ii) gain (loss) of approximately $1.9 million in relation to long-term debt demonminated in US dollars at year end.

A portion of the currency risk associated with US dollar denominated sales is naturally offset by US dollar denominated expenses. A portion of the remaining exposure is reduced by foreign exchange collar contracts that effectively limit the minimum and maximum Canadian dollar recovery related to the sale of those US dollars.

Canfor had the following foreign exchange derivatives at December 31, 2015 and 2014:

	As at December 31, 2015		As at December 31, 2014	
	Notional Amount	**Exchange Rates**	Notional Amount	Exchange Rates
US Dollar Collars	(millions of US dollars)	(protection/topside, per dollar)	(millions of US dollars)	(protection/topside, per dollar)
0-12 months	**$ -**	**$ -**	$260.0	$1.11/$1.22
US Dollar Forward Contracts	(millions of US dollars)	(range of rates, per dollar)	(millions of US dollars)	(range of rates, per dollar)
0-12 months	**$ -**	**$ -**	$4.5	$1.16

(iii) Commodity price risk:

Canfor is exposed to commodity price risk principally related to sale of lumber, pulp and paper. From time to time, Canfor enters into futures contracts on the Chicago Mercantile Exchange for lumber and forward contracts direct with customers or on commodity exchanges for pulp. Under the Price Risk Management Controls Policy, up to 15% of lumber sales and 1% of pulp sales may be sold in this way.

Canfor had the following lumber futures contracts at December 31, 2015 and 2014:

	As at December 31, 2015		As at December 31, 2014	
	Notional Amount	**Average Rate**	Notional Amount	Average Rate
Lumber	(MMfbm)	(US dollars per Mfbm)	(MMfbm)	(US dollars per Mfbm)
Future Sales Contracts				
0-12 months	**8.8**	**$264.73**	26.2	$320.50

An increase (decrease) in the futures market price of lumber of US$10 per Mfbm would result in a pre-tax gain (loss) of approximately $0.1 million in relation to the lumber futures held at year end.

(iv) Energy price risk:

Canfor is exposed to energy price risk relating to purchases of natural gas and diesel oil for use in its operations.

The exposure is hedged up to 100% through the use of floating to fixed swap contracts or option contracts with maturity dates up to a maximum of three years. In the case of diesel, Canfor uses Brent oil and Western Texas Intermediate oil ("WTI") contracts to hedge its exposure.

At December 31, 2015, the Company has 141 thousand barrels of WTI oil collars, which will be settled in 2016 and 2017, with weighted average protection of US$60.18 per barrel and topside of US$82.98 per barrel.

At December 31, 2014, the Company had 453 thousand barrels of WTI oil collars, with weighted average protection of US$70.38 per barrel and topside of US$90.00 per barrel.

Capital management

Canfor's objectives when managing capital are to maintain a strong balance sheet and a globally competitive cost structure that ensure adequate liquidity to maintain and develop the business throughout the commodity price cycle.

Canfor's capital is comprised of net debt and shareholders' equity:

(millions of Canadian dollars)		**As at December 31, 2015**		As at December 31, 2014
Total debt (including operating loans)	**$**	**614.2**	$	296.6
Less: Cash and cash equivalents (including restricted cash)		**97.5**		208.5
Net debt	**$**	**516.7**	$	88.1
Total equity		**1,627.7**		1,637.6
	$	**2,144.4**	$	1,725.7

The Company has certain financial covenants in its debt obligations, including a maximum debt to total capitalization ratio that is calculated by dividing total debt by shareholders' equity plus total debt. Debt obligations are held by various entities within the Canfor group and the individual debt agreements specify the entities within the group that are to be included in the covenant calculations.

Canfor's strategy is to ensure it remains in compliance with all of its existing debt covenants, so as to ensure continuous access to capital. Canfor was in compliance with all its debt covenants for the years ended December 31, 2015 and 2014.

The Company manages its capital structure through rigorous planning, budgeting and forecasting processes, and ongoing management of operations, investments and capital expenditures. In 2015, to meet Canfor's operating, growth and return on invested capital objectives, the Company's management of capital comprised share purchases, strategic acquisitions, investment in the Company's operations, development of energy and residual fibre-related assets and sustainable working capital reduction initiatives. Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

27. Financial Instruments

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

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

The three levels of the fair value hierarchy are:

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

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

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

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

(millions of Canadian dollars)	Fair Value Hierarchy Level		**As at December 31, 2015**		As at December 31, 2014
Financial assets measured at fair value					
Investments - held for trading	Level 1	**$**	**17.2**	$	4.5
Derivative financial instruments - held for trading	Level 2		**-**		0.3
Royalty receivable - available for sale	Level 3		**0.2**		2.9
		$	**17.4**	$	7.7
Financial liabilities measured at fair value					
Derivative financial instruments - held for trading	Level 2		**4.8**		9.1
		$	**4.8**	$	9.1

The Company invests in equity and debt securities, which are traded in an active market and valued using closing prices on the measurement date with gains or losses recognized through comprehensive income.

The royalty receivable relates to the sale of the operating assets of the Howe Sound Pulp and Paper Limited Partnership in October 2010, and is measured at fair value at each reporting period and is presented in Other Accounts Receivable on the consolidated balance sheet. The fair value of the royalty receivable is determined by discounting future expected cash flows based on energy price assumptions and future sales volume assumptions. The royalty agreement expired in September 2015, and the amount outstanding at December 31, 2015 represents the remaining payment to Canfor under the agreement.

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

At December 31, 2015, the fair value of derivative financial instruments is a net liability of $4.8 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 gain (loss) on derivative financial instruments for the years ended December 31, 2015 and 2014:

(millions of Canadian dollars)		**2015**		2014
Foreign exchange collars and forward contracts	**$**	**(20.6)**	$	(1.6)
Energy derivatives		**(5.4)**		(7.8)
Lumber futures		**(0.8)**		2.2
Pulp futures		**-**		(0.8)
Interest rate swaps		**(1.3)**		(0.9)
Loss on derivative financial instruments	**$**	**(28.1)**	$	(8.9)

The following table summarizes the fair value of the derivative financial instruments included in the balance sheets at December 31, 2015 and December 31, 2014:

(millions of Canadian dollars)		**As at December 31, 2015**		As at December 31, 2014
Foreign exchange collars and forward contracts	**$**	**-**	$	(0.6)
Energy derivatives		**(3.8)**		(7.9)
Lumber futures		**-**		0.3
Pulp futures		**-**		-
Interest rate swaps		**(1.0)**		(0.6)
Total asset (liability), net		**(4.8)**		(8.8)
Less: current portion asset (liability), net		**(3.6)**		(7.4)
Long-term liability, net	**$**	**(1.2)**	$	(1.4)

There were no transfers between fair value hierarchy levels during 2015 or 2014.

28. 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.

29. Sale of Taylor Pulp Mill

On January 30, 2015, Canfor completed the sale of its BCTMP Taylor Pulp Mill to CPPI for cash proceeds of $12.6 million including working capital. The transaction also includes a long-term fibre supply agreement under which Canfor will supply fibre to the Taylor Pulp Mill at prices that approximate fair market value. In addition to the cash proceeds, Canfor may also receive contingent consideration over a three-year period, starting January 31, 2015, based on the Taylor Pulp Mill's annual adjusted operating income before amortization. The fair value of the contingent consideration was nil at December 31, 2015 reflecting a reduction in forecast BCTMP prices over the contingent consideration period. CPPI recognized long-term assets acquired net of liabilities assumed of approximately $2.8 million and net working capital of approximately $11.6 million. From CPPI's perspective, the acquisition has been accounted for in accordance with IFRS 3 *Business Combinations*.

30. Acquisitions

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

(millions of Canadian dollars) **Company**	**Ownership as at December 31, 2015**	**Acquisition Date**		**Consideration Paid to Date**
Scotch & Gulf Lumber Company	50%	January 30, 2015	$	69.9
Beadles & Balfour LLC	55%	January 2, 2015		51.6
Southern Lumber Company	100%	April 1, 2015		65.6
Anthony Forest Products Company	100%	October 30, 2015		126.8
Total consideration paid to date			**$**	**313.9**

With the completion of these acquisitions, Canfor has acquired seven sawmills, two laminating facilities, two chip plants and one treating facility located in the US South, with facilities in Georgia, Alabama, Mississippi, Arkansas, Louisiana and Texas. In addition, Canfor acquired a 50% interest in an I-joist facility located in Ontario, Canada. The acquisitions of Scotch Gulf and Beadles & Balfour are phased acquisitions and will be 100% owned in July 2016 and January 2017, respectively. Canfor has recorded a forward purchase liability of $76.1 million for the final step of the Scotch Gulf phased acquisition and $43.0 million for the final step of the Beadles & Balfour phased acquisition. Canfor elected to calculate the non-controlling interest related to Scotch Gulf and Beadles & Balfour as the non-controlling share of the fair value of the net identifiable assets at the acquisition date for each of Scotch Gulf and Beadles & Balfour.

Each of these transactions has been accounted for in accordance with IFRS 3, *Business Combinations*. The following summarizes the consideration paid and recognized amounts of assets acquired and liabilities assumed at the acquisition dates:

(millions of Canadian dollars)		
Cash	**$**	**3.9**
Non-cash working capital, net		**67.5**
Property, plant & equipment and intangible assets		**171.0**
Equity investment		**16.6**
Total net identifiable assets	**$**	**259.0**
Non-controlling interests		**(73.4)**
Goodwill		**108.2**
Deferred tax asset, net		**20.1**
Total consideration	**$**	**313.9**

The goodwill related to the acquisitions is expected to be tax deductible over 15 years. Of the total $108.2 million of goodwill recorded on the acquisition dates, $5.5 million related to Scotch Gulf, $17.9 million related to Beadles & Balfour, $47.3 million related to Southern Lumber and $37.5 million related to Anthony. The goodwill arising from the acquisitions is attributable to the premium products produced, expected future income and cash-flow projections, access to new markets in North America and the ability to diversify Canfor's product offering. The deferred tax balance, which relates to Scotch Gulf and Beadles & Balfour, consists of a $32.7 million deferred tax asset related to goodwill and a $12.6 million deferred tax liability related to property, plant and equipment.

If the above acquisitions had occurred on January 1, 2015, management estimates that the acquired mills would have increased total sales by $165.0 million and net income by $16.9 million for the year ended December 31, 2015. Acquisition-related costs of $4.2 million, principally relating to external legal fees and due diligence costs, have been included in selling and administration costs when incurred. The results are recorded in the lumber segment.

31. Softwood Lumber Agreement

On October 12, 2015, the Softwood Lumber Agreement ("SLA") expired. The SLA provides a standstill period of one year following expiry during which no trade actions may be imposed for the importation of softwood lumber from Canada to the US. It is uncertain whether a new agreement between the Governments of Canada and the US will be reached.

32. Subsequent Event

Subsequent to year end, on January 21, 2016, Canfor agreed to purchase the assets of Wynndel Box and Lumber Ltd. located in the Creston Valley of British Columbia for an aggregate purchase price, excluding working capital, of $30.0 million. The acquisition is projected to be completed in the second quarter of 2016 and is subject to customary closing conditions.