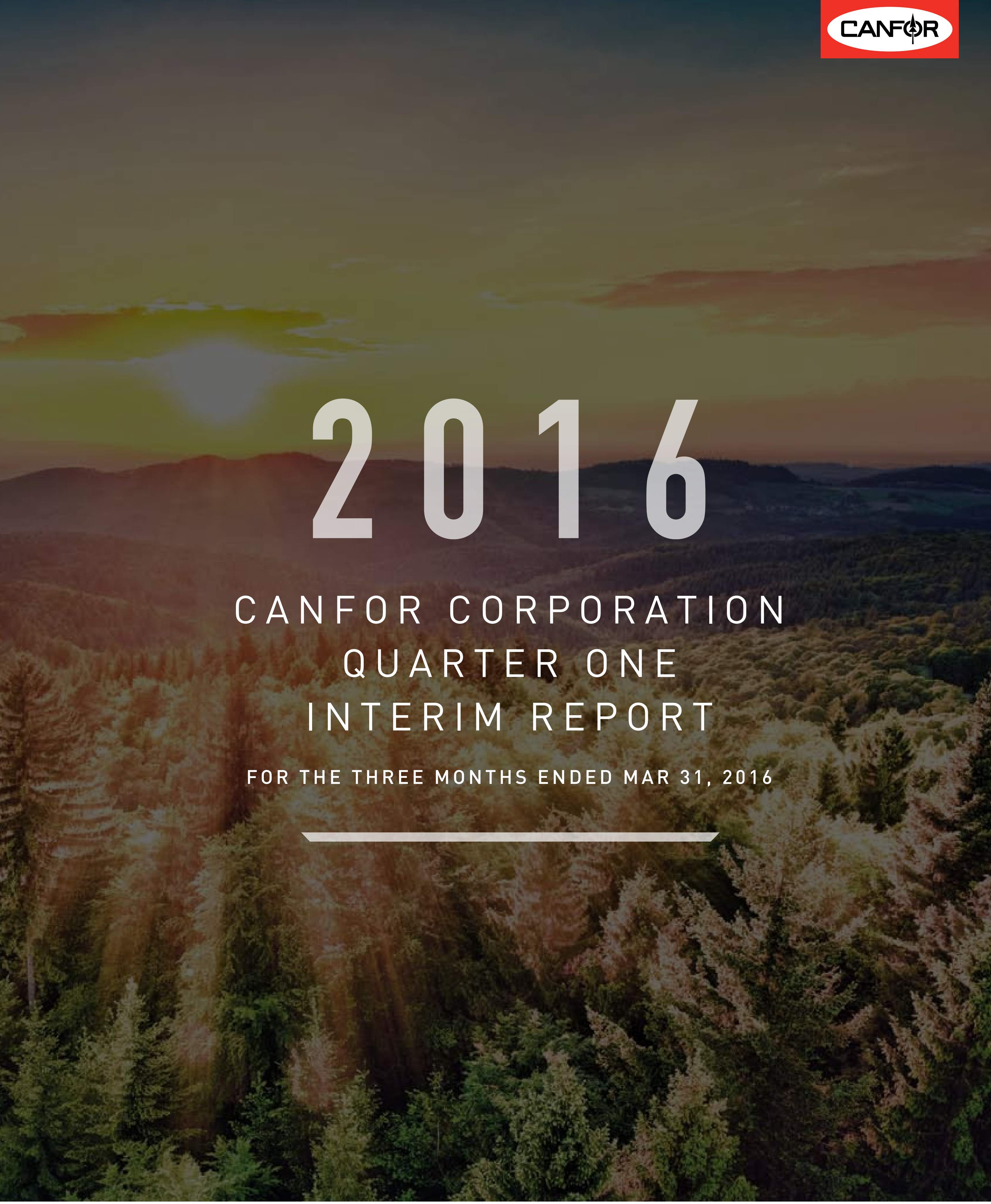

2016

CANFOR CORPORATION QUARTER ONE INTERIM REPORT

FOR THE THREE MONTHS ENDED MAR 31, 2016

To Our Shareholders

Canfor Corporation reported net income attributable to shareholders ("shareholder net income") of $26.0 million, or $0.20 per share, for the first quarter of 2016, compared to shareholder net income of $1.6 million, or $0.01 per share, for the fourth quarter of 2015 and shareholder net income of $29.3 million, or $0.22 per share, for the first quarter of 2015.

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

(millions of Canadian dollars, except per share amounts)	Q1 2016	Q4 2015	Q1 2015
Sales	**$ 1,067.9**	$ 1,053.0	$ 930.0
Operating income before amortization[1]	**$ 125.7**	$ 94.9	$ 133.0
Operating income[1]	**$ 65.1**	$ 35.0	$ 83.7
Net income attributable to equity shareholders of the Company	**$ 26.0**	$ 1.6	$ 29.3
Net income per share attributable to equity shareholders of the Company, basic and diluted	**$ 0.20**	$ 0.01	$ 0.22
Adjusted shareholder net income	**$ 20.9**	$ 7.9	$ 46.5
Adjusted shareholder net income per share, basic and diluted	**$ 0.16**	$ 0.06	$ 0.35

[1] Adjusted for a one-time item of $3.2 million associated with pension plan legislative changes in the fourth quarter of 2015.

The Company's adjusted shareholder net income for the first quarter of 2016 was $20.9 million, or $0.16 per share, compared to an adjusted shareholder net income of $7.9 million, or $0.06 per share, for the fourth quarter of 2015, and an adjusted shareholder net income of $46.5 million, or $0.35 per share for the first quarter of 2015.

The Company reported operating income of $65.1 million for the first quarter of 2016, up $30.1 million from adjusted operating income of $35.0 million for the fourth quarter of 2015. Improved lumber segment results reflected higher Western Spruce/Pine/Fir ("SPF") and Southern Yellow Pine ("SYP") unit sales realizations and improved productivity. The Company's lumber segment results also included a full quarter's operating income from its recent acquisition of Anthony Forest Products Company, based in Arkansas. Pulp and paper segment results reflected lower unit manufacturing costs, principally from lower fibre costs and the impact of the scheduled maintenance outage at the Northwood pulp mill in the previous quarter as well as improved paper segment earnings. Offsetting these factors were lower Northern Bleached Softwood Kraft ("NBSK") pulp shipment volumes and slightly lower NBSK unit sales realizations in the current quarter.

North American lumber demand was steady in the first quarter of 2016, with US housing starts in line with the previous quarter, averaging 1,133,000 units on a seasonally adjusted basis, while Canadian housing starts increased 3% at an average of 201,000 units on a seasonally adjusted basis. Offshore lumber demand in China continued to improve through the first quarter of 2016, while demand in other offshore markets remained stable.

The average benchmark North American Random Lengths Western SPF 2x4 #2&Btr price was US$272 per Mfbm in the first quarter of 2016, up US$9 per Mfbm compared to the previous quarter. Western SPF sales realizations benefitted from higher US-dollar benchmark prices as well as a 3% weaker Canadian dollar. SYP sales realizations also improved over the same period, reflecting modest price increases for most dimension products and the high-value product mix produced at the recently acquired US South operations, which more than offset a moderate decline in the SYP East 2x6 #2 price.

Lumber shipments and production were in line with the previous quarter, as productivity improvements, particularly at the Company's Western Canadian operations, offset fewer operating days in the first quarter of 2016. Unit manufacturing costs in the first quarter of 2016 were in line with the previous quarter with the productivity gains largely offsetting modest log cost increases in Western Canada.

Global softwood pulp markets were relatively balanced through the first quarter of 2016 as increased customer restocking absorbed additional supply resulting from minimal maintenance downtime in the period. The average North American US-dollar NBSK pulp list price, as published by RISI, was relatively unchanged compared to the fourth quarter of 2015, while the average price to China was down US$10 per tonne, or 2%. NBSK pulp unit sales realizations were slightly lower in the current quarter as the favourable impact of a 3% weaker Canadian dollar was more than offset by lower transaction prices which reflected slightly higher discounts and a less favourable regional sales mix in the first quarter of 2016. Bleached Chemi-Thermo Mechanical Pulp ("BCTMP") list prices were lower in the first quarter of 2016; however, BCTMP unit sales realizations improved reflecting the weaker Canadian dollar and a more favourable sales mix in the quarter. Contributions from the Company's energy business were slightly lower in the current quarter reflecting fewer operating days.

Total pulp shipments were 10% lower principally reflecting a drawdown in finished inventory levels in the fourth quarter of 2015 as well as fewer operating days in the current quarter. NBSK pulp production was broadly in line with the previous quarter reflecting similar operating rates to the fourth quarter of 2015. In the previous quarter, the impact of the scheduled maintenance outage at the Northwood pulp mill, which reduced market pulp production by 20,000 tonnes, was largely offset by additional operating days in the fourth quarter of 2015. NBSK unit manufacturing costs were moderately lower in the current quarter principally a result of lower fibre, maintenance and energy costs. BCTMP production volumes were consistent with the previous quarter while unit manufacturing costs were slightly lower.

On April 15, 2016, Canfor completed the acquisition of the assets of Wynndel Box & Lumber Ltd., ("Wynndel") located in the Creston Valley of British Columbia. Wynndel produces premium boards and customized specialty wood products and its addition will further expand the Company's overall product offering and enhance its high value product mix.

Looking ahead, the US housing market is forecast to continue its gradual recovery through 2016. The Company is projected to benefit from seasonally stronger demand and prices for wide dimension and specialty lumber products through the second quarter, particularly in the US South where these grades represent a significant proportion of its product profile. For the Company's key offshore lumber markets, demand is anticipated to be solid through the second quarter, with steady takeaway projected for its China and Japan markets. In the pulp and paper segment, relatively balanced global softwood pulp markets heading into the annual spring maintenance period may support a modest NBSK pulp price increase through the second quarter of 2016. In the latter half of 2016, there remains a risk of price weakness due in part to previously announced significant new global pulp capacity coming online. For May 2016, the Company announced NBSK pulp list prices of US$980 per tonne in North America, an increase of US$30 per tonne from March 2016. The recent strengthening of the Canadian dollar is anticipated to offset improvements in US-dollar prices in the second quarter of 2016.

Results in the second quarter of 2016 will be impacted by maintenance outages planned at the Northwood and Intercontinental pulp mills, with a projected 38,000 tonnes of reduced NBSK pulp production, higher associated maintenance costs and lower projected shipment volumes. The Prince George pulp mill has a maintenance outage scheduled for the third quarter of 2016 and the Taylor BCTMP mill will complete a maintenance outage in the fourth quarter of 2016.

Michael J. Korenberg
Chairman

Don B. Kayne
President and Chief Executive Officer

Canfor Corporation
First Quarter 2016
Management's Discussion and Analysis

This interim Management's Discussion and Analysis ("MD&A") provides a review of Canfor Corporation's ("Canfor" or "the Company") financial performance for the quarter ended March 31, 2016 relative to the quarters ended December 31, 2015 and March 31, 2015, and the financial position of the Company at March 31, 2016. It should be read in conjunction with Canfor's unaudited interim consolidated financial statements and accompanying notes for the quarters ended March 31, 2016 and 2015, as well as the 2015 annual MD&A and the 2015 audited consolidated financial statements and notes thereto, which are included in Canfor's Annual Report for the year ended December 31, 2015 (available at www.canfor.com). The financial information in this interim MD&A has been prepared in accordance with International Financial Reporting Standards ("IFRS"), which is the required reporting framework for Canadian publicly accountable enterprises.

Throughout this discussion, reference is made to Operating Income before Amortization which Canfor considers to be a relevant indicator for measuring trends in the performance of each of its operating segments and the Company's ability to generate funds to meet its debt repayment and capital expenditure requirements. Reference is also made to Adjusted Shareholder Net Income (Loss) (calculated as Shareholder Net income (loss) less specific items affecting comparability with prior periods – for the full calculation, see the reconciliation included in the section "Analysis of Specific Material Items Affecting Comparability of Net Income (Loss)") and Adjusted Shareholder Net Income (Loss) per Share (calculated as Adjusted Shareholder Net Income (Loss) divided by the weighted average number of shares outstanding during the period). Operating Income before Amortization and Adjusted Shareholder Net Income (Loss) and Adjusted Shareholder Net Income (Loss) per Share are not generally accepted earnings measures and should not be considered as an alternative to net income or cash flows as determined in accordance with IFRS. As there is no standardized method of calculating these measures, Canfor's Operating Income before Amortization, Adjusted Shareholder Net Income (Loss) and Adjusted Shareholder Net Income (Loss) per Share may not be directly comparable with similarly titled measures used by other companies. Reconciliations of Operating Income before Amortization to Operating Income (Loss) and Adjusted Shareholder Net Income (Loss) to Net Income (Loss) reported in accordance with IFRS are included in this MD&A. Throughout this discussion, reference is made to the current quarter, which refers to the results for the first quarter of 2016.

Factors that could impact future operations are also discussed. These factors may be influenced by both known and unknown risks and uncertainties that could cause the actual results to be materially different from those stated in this discussion. Factors that could have a material impact on any future oriented statements made herein include, but are not limited to: general economic, market and business conditions; product selling prices; raw material and operating costs; currency exchange rates; interest rates; changes in law and public policy; the outcome of labour and trade disputes; and opportunities available to or pursued by Canfor.

All financial references are in millions of Canadian dollars unless otherwise noted. The information in this report is as at April 26, 2016.

Forward Looking Statements

Certain statements in this MD&A constitute "forward-looking statements" which involve known and unknown risks, uncertainties and other factors that may cause actual results to be materially different from any future results, performance or achievements expressed or implied by such statements. Words such as "expects", "anticipates", "projects", "intends", "plans", "will", "believes", "seeks", "estimates", "should", "may", "could", and variations of such words and similar expressions are intended to identify such forward-looking statements. These statements are based on management's current expectations and beliefs and actual events or results may differ materially. There are many factors that could cause such actual events or results expressed or implied by such forward-looking statements to differ materially from any future results expressed or implied by such statements. Forward-looking statements are based on current expectations and the Company assumes no obligation to update such information to reflect later events or developments, except as required by law.

FIRST QUARTER 2016 OVERVIEW

Selected Financial Information and Statistics

(millions of Canadian dollars, except per share amounts)		Q1 2016		Q4 2015		Q1 2015
Operating income (loss) by segment:						
Lumber	**$**	**33.4**	$	3.7	$	48.3
Pulp and Paper	**$**	**39.1**	$	38.6	$	43.0
Unallocated and Other	**$**	**(7.4)**	$	(10.5)	$	(7.6)
Total operating income	**$**	**65.1**	$	31.8	$	83.7
Add: Amortization	**$**	**60.6**	$	59.9	$	49.3
Total operating income before amortization[1]	**$**	**125.7**	$	91.7	$	133.0
Add (deduct):						
Working capital movements	**$**	**(58.0)**	$	(58.5)	$	(101.2)
Defined benefit plan withdrawals (contributions), net	**$**	**(5.2)**	$	(6.1)	$	3.0
Income taxes paid, net	**$**	**(13.6)**	$	(2.1)	$	(22.0)
Other operating cash flows, net[2]	**$**	**2.0**	$	9.8	$	20.6
Cash from operating activities	**$**	**50.9**	$	34.8	$	33.4
Add (deduct):						
Finance expenses paid	**$**	**(4.1)**	$	(3.3)	$	(2.6)
Share purchases	**$**	**-**	$	(20.0)	$	(26.0)
Distributions paid to non-controlling interests	**$**	**(4.2)**	$	(4.0)	$	(3.0)
Capital additions, net	**$**	**(47.1)**	$	(83.7)	$	(45.8)
Acquisitions	**$**	**-**	$	(123.9)	$	(73.1)
Proceeds from long-term debt	**$**	**-**	$	263.4	$	-
Change in restricted cash[3]	**$**	**-**	$	-	$	50.2
Foreign exchange gain (loss) on cash and cash equivalents	**$**	**(3.9)**	$	3.2	$	8.4
Other, net	**$**	**(3.4)**	$	(12.7)	$	(0.6)
Change in cash / operating loans	**$**	**(11.8)**	$	53.8	$	(59.1)
ROIC – Consolidated period-to-date[4]		**1.3%**		0.4%		2.8%
Average exchange rate (US$ per C$1.00)[5]	**$**	**0.728**	$	0.749	$	0.806

[1] Amortization includes amortization of certain capitalized major maintenance costs.
[2] Further information on operating cash flows can be found in the Company's unaudited interim consolidated financial statements.
[3] Change in restricted cash relates to amounts transferred into an escrow bank account for the first phase of the Beadles & Balfour acquisition which closed on January 2, 2015.
[4] Consolidated Return on Invested Capital ("ROIC") is equal to operating income/loss plus realized gains/losses on derivatives, equity income/loss from joint venture and other income/expense, all net of minority interest, divided by the average invested capital during the period. Invested capital is equal to capital assets, plus long-term investments and net non-cash working capital, all excluding minority interest components.
[5] Source – Bank of Canada (average noon rate for the period).

Analysis of Specific Material Items Affecting Comparability of Shareholder Net Income

After-tax impact, net of non-controlling interests

(millions of Canadian dollars, except per share amounts)		Q1 2016		Q4 2015		Q1 2015
Shareholder net income, as reported	**$**	**26.0**	$	1.6	$	29.3
(Gain) loss on derivative financial instruments	**$**	**1.8**	$	(1.2)	$	17.2
Foreign exchange (gain) loss on long-term debt	**$**	**(6.9)**	$	5.1	$	-
One-time costs associated with pension plan legislation changes	**$**	**-**	$	2.4	$	-
Net impact of above items	**$**	**(5.1)**	$	6.3	$	17.2
Adjusted shareholder net income	**$**	**20.9**	$	7.9	$	46.5
Shareholder net income per share (EPS), as reported	**$**	**0.20**	$	0.01	$	0.22
Net impact of above items per share	**$**	**(0.04)**	$	0.05	$	0.13
Adjusted shareholder net income per share	**$**	**0.16**	$	0.06	$	0.35

The Company reported operating income of $65.1 million for the first quarter of 2016, up $30.1 million from adjusted operating income of $35.0 million for the fourth quarter of 2015. Improved lumber segment results reflected higher Western Spruce/Pine/Fir ("SPF") and Southern Yellow Pine ("SYP") unit sales realizations and improved productivity. The Company's lumber segment results also included a full quarter's operating income from its recent acquisition of Anthony Forest Products Company, based in Arkansas. Pulp and paper segment results reflected lower unit manufacturing costs, principally from lower fibre costs and the impact of the scheduled maintenance outage at the Northwood pulp mill in the previous quarter as well as improved paper segment earnings. Offsetting these factors were lower Northern Bleached Softwood Kraft ("NBSK") pulp shipment volumes and slightly lower NBSK unit sales realizations in the current quarter.

North American lumber demand was steady in the first quarter of 2016, with US housing starts in line with the previous quarter, averaging 1,133,000 units on a seasonally adjusted basis, while Canadian housing starts increased 3% at an average of 201,000 units on a seasonally adjusted basis. Offshore lumber demand in China continued to improve through the first quarter of 2016, while demand in other offshore markets remained stable.

The average benchmark North American Random Lengths Western SPF 2x4 #2&Btr price was US$272 per Mfbm in the first quarter of 2016, up US$9 per Mfbm compared to the previous quarter. Western SPF sales realizations benefitted from higher US-dollar benchmark prices as well as a 3% weaker Canadian dollar. SYP sales realizations also improved over the same period, reflecting modest price increases for most dimension products and the high-value product mix produced at the recently acquired US South operations, which more than offset a moderate decline in the SYP East 2x6 #2 price.

Lumber shipments and production were in line with the previous quarter, as productivity improvements, particularly at the Company's Western Canadian operations, offset fewer operating days in the first quarter of 2016. Unit manufacturing costs in the first quarter of 2016 were in line with the previous quarter with the productivity gains largely offsetting modest log cost increases in Western Canada.

Global softwood pulp markets were relatively balanced through the first quarter of 2016 as increased customer restocking absorbed additional supply resulting from minimal maintenance downtime in the period. The average North American US-dollar NBSK pulp list price, as published by RISI, was relatively unchanged compared to the fourth quarter of 2015, while the average price to China was down US$10 per tonne, or 2%. NBSK pulp unit sales realizations were slightly lower in the current quarter as the favourable impact of a 3% weaker Canadian dollar was more than offset by lower transaction prices which reflected slightly higher discounts and a less favourable regional sales mix in the first quarter of 2016. Bleached Chemi-Thermo Mechanical Pulp ("BCTMP") list prices were lower in the first quarter of 2016; however, BCTMP unit sales realizations improved reflecting the weaker Canadian dollar and a more favourable sales mix in the quarter. Contributions from the Company's energy business were slightly lower in the current quarter reflecting fewer operating days.

Total pulp shipments were 10% lower principally reflecting a drawdown in finished inventory levels in the fourth quarter of 2015 as well as fewer operating days in the current quarter. NBSK pulp production was broadly in line with the previous quarter reflecting similar operating rates to the fourth quarter of 2015. In the previous quarter, the impact of the scheduled maintenance outage at the Northwood pulp mill, which reduced market pulp production by 20,000 tonnes, was largely offset by additional operating days in the fourth quarter of 2015. NBSK pulp unit manufacturing costs were moderately lower in the current quarter principally a result of lower fibre, maintenance and energy costs. BCTMP production volumes were consistent with the previous quarter while unit manufacturing costs were slightly lower.

On April 15, 2016, Canfor completed the acquisition of the assets of Wynndel Box & Lumber Ltd., ("Wynndel") located in the Creston Valley of British Columbia. Wynndel produces premium boards and customized specialty wood products and its addition will further expand the Company's overall product offering and enhance its high value product mix.

Compared to the first quarter of 2015, operating income was down $18.6 million reflecting a $14.9 million decrease in lumber segment earnings and a $3.9 million decrease in earnings for the pulp and paper segment. The decline in lumber segment earnings was attributable to increased log costs in Western Canada and lower lumber sales realizations as lower US-dollar benchmark lumber prices outweighed the benefit of an 8 cent, or 10%, weaker Canadian dollar and stronger operating performance in the current quarter. Total lumber production and shipments were well up from the same quarter in 2015 as a result of productivity improvements and the Company's recent US South acquisitions. Results in the first quarter of 2015 included lumber production from the Company's Canal Flats sawmill, which was permanently closed in November 2015. Pulp and paper segment results reflected lower pulp unit sales realizations mitigated somewhat by moderately lower unit manufacturing costs and higher NBSK pulp shipments volumes in the first quarter of 2016.

OPERATING RESULTS BY BUSINESS SEGMENT

Lumber

Selected Financial Information and Statistics – Lumber

(millions of Canadian dollars, unless otherwise noted)	Q1 2016	Q4 2015	Q1 2015
Sales	**$ 772.6**	$ 721.8	$ 647.0
Operating income before amortization	**$ 74.2**	$ 44.8	$ 80.5
Operating income	**$ 33.4**	$ 3.7	$ 48.3
Inventory valuation adjustments	**$ -**	$ (6.2)	$ -
One-time costs associated with pension plan legislative changes	**$ -**	$ 3.2	$ -
Operating income excluding impact of inventory valuation adjustments and one-time items	**$ 33.4**	$ 0.7	$ 48.3
Average SPF 2x4 #2&Btr lumber price in US$[6]	**$ 272**	$ 263	$ 308
Average SPF price in Cdn$	**$ 374**	$ 351	$ 382
Average SYP 2x4 #2 lumber price in US$[7]	**$ 407**	$ 400	$ 413
U.S. housing starts (thousand units SAAR)[8]	**1,133**	1,135	978
Production – SPF lumber (MMfbm)[9]	**966.5**	976.0	966.0
Production – SYP lumber (MMfbm)[9]	**336.0**	320.7	234.5
Shipments – Canfor-produced SPF lumber (MMfbm)[10]	**1,006.3**	1,025.1	930.6
Shipments – Canfor-produced SYP lumber (MMfbm)[10]	**348.9**	328.5	236.4
Shipments – wholesale lumber (MMfbm)	**6.5**	7.8	5.4

[6] Western Spruce/Pine/Fir, per thousand board feet (Source – Random Lengths Publications, Inc.).
[7] Southern Yellow Pine, Eastside, per thousand board feet (Source – Random Lengths Publications, Inc.).
[8] Source – U.S. Census Bureau, seasonally adjusted annual rate ("SAAR").
[9] Excluding production of trim blocks.
[10] Canfor-produced lumber, including lumber purchased for remanufacture and excluding trim blocks. Shipments include volume from the Company's Glulam facilities acquired on October 30, 2015.

Overview

Operating income for the lumber segment was $33.4 million for the first quarter of 2016, an increase of $29.7 million compared to operating income of $3.7 million in the previous quarter, and down $14.9 million compared to operating income of $48.3 million in the same quarter of 2015. Excluding inventory valuation adjustments and one-time costs in the previous quarter, the lumber segment's operating income was up $32.7 million from the fourth quarter of 2015.

Compared to the fourth quarter of 2015, the increase in adjusted operating income for the lumber segment reflected improved benchmark lumber prices and a further improvement in operating performance, as well as a full quarter of earnings from Anthony Forest Products, which was acquired on October 30, 2015. Western SPF unit sales realizations showed a modest improvement reflecting a 2 cent, or 3%, weaker Canadian dollar and slightly higher US dollar Western SPF benchmark lumber prices in the current quarter. SYP unit sales realizations also increased compared to the prior quarter reflecting a slight increase in the SYP 2x4 #2 price, which was up US$7 per Mfbm, and more pronounced price increases in wider-dimension SYP lumber products more than offsetting the impact of lower SYP 2x6 #2 prices. Despite fewer operating days in the current quarter, total lumber shipments and production were in line with the prior quarter due mostly to record-high productivity at the Company's Western Canadian operations.

Compared to the first quarter of 2015, the decline in operating income in the current quarter principally reflected lower lumber sales realizations as lower US-dollar benchmark lumber prices outweighed the benefit of an 8 cent, or 10%, weaker Canadian dollar. Total lumber shipments and production were well up from the same quarter in 2015 due mostly to the Company's recent US South acquisitions and improved productivity, which more than offset the closure of the Canal Flats sawmill in November 2015.

During the first quarter of 2016, the Company's Fort St. John pellet plant commenced commercial production joining the Chetwynd pellet plant which was completed at the end of 2015. The capital ramp-ups at both pellet plants are proceeding at target levels.

Markets

North American lumber demand benefited from better-than-expected weather for most of the first quarter of 2016, which supported an early start to the building season and increased repair and remodeling activity. Total US housing starts averaged 1,133,000 units SAAR, in line with the prior quarter and up 16% from the same period in 2015.

Offshore lumber shipments increased through the first quarter of 2016 led by improving lumber demand in China and relatively stable volume to other offshore markets, such as Japan and Korea.

In Canada, housing starts also improved, at an average of 201,000 units SAAR in the first quarter of 2016, up 3% compared to the previous quarter, and up 14% from the first quarter of 2015.

Sales

Sales for the lumber segment for the first quarter of 2016 were $772.6 million, compared to $721.8 million in the previous quarter and $647.0 million for the first quarter of 2015. The 7% increase in sales from the prior quarter reflected a 3% weaker Canadian dollar, higher average Western SPF and SYP US-dollar benchmark lumber prices, increased engineered wood product sales following the acquisition of Anthony Forest Products, and to a lesser extent, increased residual fibre revenue. Compared to the first quarter of 2015, the increase of $125.6 million, or 19%, in sales revenue was primarily due to higher Western SPF and SYP lumber shipments related to the Company's recent acquisitions in the US South, increased productivity, and the benefit of a 10% weaker Canadian dollar, all of which more than offset lower US-dollar Western SPF and SYP benchmark lumber prices relative to the same quarter in 2015.

Total lumber shipments in the first quarter of 2016, at 1.36 billion board feet, were in line with the previous quarter as the recent acquisition of Anthony Forest Products offset the closure of the Canal Flats sawmill in November 2015. Compared to the first quarter of 2015, total lumber shipments in the current quarter were up 16%, primarily reflecting the Company's recent growth in the US South, and to a lesser extent, productivity gains over the period.

Western SPF lumber sales realizations showed a moderate improvement compared to the prior quarter reflecting the favourable foreign exchange impact of a 2 cent, or 3% weaker Canadian dollar, higher average Western SPF lumber prices and no export taxes paid in the quarter. The benchmark North American Random Lengths Western SPF 2x4 #2&Btr price was up US$9 per Mfbm, or 3%, compared to the fourth quarter of 2015. SYP lumber sales realizations in the first quarter of 2016 showed a modest increase compared to the fourth quarter of 2015 with the average Random Lengths SYP East 2x4 #2 price up US$7 per Mfbm to US$407 per Mfbm and more pronounced price increases seen in most wider-dimension SYP products which more than offset the impact of lower SYP 2x6 #2 prices.

Compared to the first quarter of 2015, Western SPF lumber sales realizations were down, principally reflecting lower benchmark lumber prices, offset in part by the favourable impact of the 8 cents, or 10%, weaker Canadian dollar. Compared to the first quarter of 2015, the average North American Random Lengths Western SPF 2x4 #2&Btr price was down US$36 per Mfbm, or 12%, to US$272 per Mfbm. Offshore lumber sales realizations were also lower compared to the first quarter of 2015, reflecting weaker US-dollar prices for most grades, particularly low grade products, which more than offset the benefit of the weaker Canadian dollar. SYP lumber sales realizations were slightly lower, reflecting the positive impact of the higher-value sales mix at the recently acquired US South operations, which largely offset lower benchmark SYP lumber prices.

Total residual fibre revenue in the current quarter was higher compared to both comparable periods, principally due to additional chip sales volumes from the recently acquired US South operations, and higher productivity in Western Canada. Pellet sales were also higher compared to both comparable periods following the start-up of the Fort St. John and Chetwynd pellet plants, while log sales were in line with the previous quarter, and up compared to the first quarter of 2015 due largely to the recently acquired US South operations.

Operations

Lumber production, at 1.3 billion board feet, was in line with the previous quarter as the Company's Western Canadian operations' productivity improvements offset fewer operating days in the quarter. Compared to the first quarter of 2015, total lumber production was up 9% reflecting in part the incremental production from the acquisitions of Southern Lumber and Anthony Forest Products, partly offset by the Company's closure of its Canal Flats sawmill in November 2015. Excluding items impacting comparability between quarters, lumber production was 7% higher reflecting improved productivity in the current quarter.

Unit manufacturing costs in the first quarter of 2016 were broadly in line with the prior quarter as lower Western SPF cash conversion costs related to improved productivity largely offset increased log costs in Western Canada. Higher unit log costs in Western Canada largely reflected market-driven increases in purchased wood costs, offset in part by lower fuel costs. Compared to the first quarter of 2015, unit manufacturing costs were down slightly, primarily reflecting increased productivity following several capital upgrades and shift configuration changes, offset in part by costs associated with the high-value US South acquisitions and increased purchased wood costs in the current quarter.

Pulp and Paper

Selected Financial Information and Statistics – Pulp and Paper[11]

(millions of Canadian dollars, unless otherwise noted)	Q1 2016	Q4 2015	Q1 2015
Sales	**$ 295.3**	$ 331.2	$ 283.0
Operating income before amortization[12]	**$ 57.8**	$ 56.2	$ 58.9
Operating income	**$ 39.1**	$ 38.6	$ 43.0
Average pulp price delivered to U.S. – US$[13]	**$ 943**	$ 945	$ 995
Average price in Cdn$	**$ 1,295**	$ 1,262	$ 1,235
Production – pulp (000 mt)	**321.8**	322.5	308.2
Production – paper (000 mt)	**35.3**	35.8	35.4
Shipments – pulp (000 mt)	**319.1**	356.2	287.4
Shipments – paper (000 mt)	**34.9**	35.4	32.1

[11] Includes 100% of Canfor Pulp Products Inc., which is consolidated in Canfor's operating results. Pulp production and shipment volumes presented are for both NBSK and BCTMP.
[12] Amortization includes amortization of certain capitalized major maintenance costs.
[13] Per tonne, NBSK pulp list price delivered to US (Resource Information Systems, Inc.).

Overview

Operating income for the pulp and paper segment was $39.1 million for the first quarter of 2016, up $0.5 million from the fourth quarter of 2015 and down $3.9 million from same quarter in 2015. Results in the first quarter of 2016 reflected lower unit manufacturing costs, principally from lower fibre costs and the impact of the scheduled maintenance outage at the Northwood pulp mill in the previous quarter as well as improved paper segment earnings. Offsetting these factors were lower NBSK pulp shipment volumes and slightly lower NBSK pulp unit sales realizations in the first quarter of 2016. Pulp and paper segment results were down slightly compared to the first quarter of 2015 as moderately lower manufacturing costs, resulting from lower energy and fibre costs and higher NBSK pulp shipments, largely offset lower unit sales realizations.

Markets

Global softwood pulp markets were relatively balanced through the first quarter of 2016. The softwood industry historically takes minimal maintenance downtime during this period, which was offset in part by increased demand, primarily from China, driven by consumer restocking. Pulp producer inventories ended the quarter in the balanced range at 30 days of supply, an increase of 1 day from December 2015[14], however, they were 3 days below the March 2015 level. Market conditions are generally considered balanced when inventories are in the 27-30 days of supply range.

Global shipments of bleached softwood kraft pulp were in line with the previous quarter as increased shipments to China were offset by a slight decrease in shipments to North America. Compared to the first quarter of 2015 global shipments of bleached softwood kraft pulp to China and North America were higher[15].

Sales

The Company's pulp shipments in the first quarter of 2016 were 319,100 tonnes, down 37,100 tonnes, or 10%, from the fourth quarter of 2015 and up 31,700 tonnes, or 11%, from the first quarter of 2015. Pulp shipments returned to more normalized levels in the first quarter of 2016 following strong shipments in the previous quarter. Compared to the first quarter of 2015, the increase in pulp shipments reflected in part improved NBSK pulp productivity in the first quarter of 2016.

[14] World 20 data is based on twenty producing countries representing 80% of world chemical market pulp capacity and is based on information compiled and prepared by the Pulp and Paper Products Council ("PPPC").
[15] As reported by PPPC statistics.

The average North American US-dollar NBSK pulp list price, as published by RISI, was down US$2 per tonne compared to the fourth quarter of 2015 while the average NBSK pulp price to China which was down US$10 per tonne, or 2%. Average NBSK pulp unit sales realizations showed a small decline compared to the fourth quarter of 2015 reflecting slightly lower US-dollar prices, slightly higher discounts and a less favourable regional sales mix partly offset by the 2 cent, or 3%, weaker Canadian dollar. BCTMP markets continued to be challenging in the first quarter of 2016 with prices trending lower through the quarter; however, BCTMP unit sales realizations improved slightly as a result of the weaker Canadian dollar and a more favourable sales mix in the quarter.

Compared to the first quarter of 2015, NBSK pulp unit sales realizations were moderately lower as lower prices to all regions were offset by the 8 cent, or 10%, weaker Canadian dollar. The average NBSK pulp list price to North America saw a decrease of US$52 per tonne, while the average list price to China saw a more significant decline of US$73 per tonne. BCTMP unit sales realizations were down significantly compared to the first quarter of 2015 reflecting a decline in BCTMP market prices offset, in part, by the weaker Canadian dollar.

Contributions from the Company's energy business were slightly lower in the current quarter reflecting fewer operating days. Compared to the same quarter in 2015, however, energy revenues were well up, reflecting the incremental contribution from the Intercontinental pulp mill turbine which started selling power in April 2015, and ramp-up of the Northwood pulp mill turbine.

Paper unit sales realizations saw a modest increase compared to the previous quarter principally reflecting a higher value sales mix as well as the benefit of a weaker Canadian dollar offset by slightly higher customer discounts and continued pressure on paper prices. Paper unit sales realizations were broadly in line with the same quarter in the prior year as the favourable benefit of a weaker Canadian dollar was largely offset by lower US-dollar prices.

Operations

Pulp production in the first quarter of 2016 at 321,800 tonnes was broadly in line with the previous quarter and up 13,600 tonnes, or 4%, from the same quarter in 2015. Operating rates in the current quarter were relatively consistent with the fourth quarter of 2015 with fewer operating days in the current quarter mostly offsetting the quarter-over-quarter impact of the scheduled maintenance outage at the Northwood pulp mill, which reduced market pulp production by 20,000 tonnes in the fourth quarter of 2015. BCTMP production was in line with the previous quarter and made up approximately 17% of the Company's total pulp production in the first quarter of 2016. The increase in pulp production compared to the first quarter of 2015 reflected improved NBSK pulp operating rates in the current quarter.

Pulp unit manufacturing costs saw a moderate decrease from the previous quarter partly reflecting the costs associated with the scheduled Northwood maintenance outage in the fourth quarter of 2015 and, to a lesser extent, lower energy costs in the first quarter of 2016. Fibre costs were modestly lower than the fourth quarter of 2015 largely reflecting lower delivered costs for sawmill residual chips (linked to Canadian dollar NBSK pulp sales realizations) and, to a lesser extent, a higher proportion of lower-cost sawmill residual chips.

Unit manufacturing costs were also moderately lower compared to the first quarter in 2015 largely reflecting lower energy costs as a result of higher self-generated electricity following the completion of the Intercontinental turbine in April 2015 and ramp up of the Northwood turbine. Fibre costs were also lower in the current quarter primarily due to lower prices for delivered sawmill residual chips and, to a lesser extent, proportionately lower whole log chips in the fibre mix.

Paper production for the first quarter of 2016 at 35,300 tonnes was relatively consistent with both comparative periods. Unit manufacturing costs were slightly lower than the previous quarter reflecting the timing of spending on operating supplies as well as lower prices for slush pulp in the current quarter. Compared to the first quarter of 2015, paper unit manufacturing costs were also slightly lower largely reflecting lower slush pulp prices partially offset by higher chemical costs.

Unallocated and Other Items

Selected Financial Information

(millions of Canadian dollars)		Q1 2016		Q4 2015		Q1 2015
Operating loss of Panels operations[16]	**$**	**(0.7)**	$	(0.6)	$	(0.7)
Corporate costs	**$**	**(6.7)**	$	(9.9)	$	(6.9)
Finance expense, net	**$**	**(8.2)**	$	(7.6)	$	(5.3)
Foreign exchange gain (loss) on long-term debt	**$**	**7.9**	$	(5.9)	$	-
Gain (loss) on derivative financial instruments	**$**	**(2.4)**	$	2.1	$	(28.0)
Foreign exchange gain (loss) on working capital and other income (expense), net	**$**	**(10.1)**	$	3.5	$	10.8

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

Corporate costs were $6.7 million for the first quarter of 2016, down $3.2 million from the previous quarter, which included higher legal and share based compensation expenses. Corporate costs were broadly in line with the first quarter of 2015.

Net finance expense at $8.2 million for the first quarter of 2016 was up $0.6 million from the previous quarter and up $2.9 million from the first quarter of 2015. The increase reflected higher net interest expense associated with higher debt levels resulting from the US-dollar term debt financings completed at the beginning of the fourth quarter of 2015. In the first quarter of 2016, the Company recognized a foreign exchange gain on its US-dollar term debt held by Canadian entities due to the strengthening of the Canadian dollar (see further discussion on the term debt financing in the "Liquidity and Financial Requirements" section).

The Company uses a variety of derivative financial instruments as partial economic hedges against unfavourable changes in foreign exchange rates, energy costs, lumber prices, pulp prices and interest rates. In the first quarter of 2016, the Company recorded a net loss of $2.4 million related to its derivatives instruments, principally reflecting realized losses on the crude oil collars settled during the quarter.

Foreign exchange loss on working capital and other expense, net of $10.1 million in the first quarter of 2016 principally reflected unfavourable exchange movements on US dollar denominated cash, receivables and payables, resulting from the strengthening of the Canadian dollar towards the end of the quarter.

Other Comprehensive Income (Loss)

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

(millions of Canadian dollars)		Q1 2016		Q4 2015		Q1 2015
Foreign exchange translation differences for foreign operations, net of tax	**$**	**(24.5)**	$	15.5	$	34.3
Defined benefit actuarial losses, net of tax		**(17.6)**		(2.0)		(3.2)
Other comprehensive income (loss), net of tax	**$**	**(42.1)**	$	13.5	$	31.1

In the first quarter of 2016, the Company recorded an after-tax loss of $17.6 million in relation to changes in the valuation of the Company's employee future benefit plans. The loss principally reflected a lower return on plan assets coupled with a slightly lower discount rate used to value the employee future benefit plans. This compared to an after-tax loss of $2.0 million in the previous quarter and an after-tax loss of $3.2 million the first quarter of 2015.

In addition, the Company recorded a loss of $24.5 million in the first quarter of 2016 related to foreign exchange differences for foreign operations, resulting from the strengthening of the Canadian dollar relative to the US dollar towards the end of the first quarter. This compared to a gain of $15.5 million in the previous quarter and a gain of $34.3 million in the first quarter of 2015 due to a weakening of the Canadian dollar relative to the US counterpart.

SUMMARY OF FINANCIAL POSITION

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

(millions of Canadian dollars, except for ratios)	Q1 2016	Q4 2015	Q1 2015
Increase (decrease) in cash and cash equivalents, before foreign exchange gain on cash and cash equivalents	**$ 39.1**	$ 7.6	$ 47.5
Operating activities	**$ 50.9**	$ 34.8	$ 33.4
Financing activities	**$ 33.7**	$ 183.5	$ 81.7
Investing activities	**$ (45.5)**	$ (210.7)	$ (67.6)
Ratio of current assets to current liabilities	**1.5 : 1**	1.6 : 1	1.8 : 1
Net debt to capitalization	**24.0%**	24.1%	10.9%

Changes in Financial Position

Cash generated from operating activities was $50.9 million in the first quarter of 2016, compared to cash generated of $34.8 million in the previous quarter and cash generated of $33.4 million in the same quarter of 2015. The increase in operating cash flows from the previous quarter principally reflected higher cash earnings in the current period offset in part by the seasonal log inventory build in Western Canada, and increased income tax installment payments. Compared to the first quarter of the 2015, the increase in operating cash flows was primarily attributable to lower non-cash working capital offset by lower cash earnings in the current quarter.

Cash generated in financing activities was $33.7 million in the current quarter, compared to $183.5 million in the previous quarter and $81.7 million in the same quarter of 2015. During the current quarter, the Company made cash distributions of $4.2 million to non-controlling shareholders, in line with the previous quarter and up $1.2 million from the same quarter of 2015. Cash flows in the current period include $5.0 million for shares purchased under CPPI's Normal Course Issuer Bid, while Canfor did not purchase any common shares under its Normal Course Issuer Bid in the first quarter of 2016 (see "Liquidity and Financial Requirements" for more details). The Company had $205.0 million outstanding on its operating loan facility at the end of the first quarter of 2016, an increase of $47.0 million from the prior quarter.

Cash used for investing activities was $45.5 million in the current quarter, compared to $210.7 million in the previous quarter and $67.6 million in the same quarter of 2015. Cash used for capital additions was $47.1 million, down $36.6 million from the previous quarter and up $1.3 million from the first quarter of 2015. Current quarter capital expenditures included costs related to the construction of the Company's pellet plants in Chetwynd and Fort St. John, costs associated with an upcoming major upgrade of the Company's Polar sawmill as well as smaller capital projects at both the SYP and Western SPF lumber operations. In the pulp and paper segment, capital expenditures primarily related to maintenance-of-business capital expenditures and smaller energy-related projects that were completed in previous quarters but paid in early 2016.

During 2015, the Company completed an investment agreement with Conifex Inc. ("Conifex"). 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. On February 12, 2016, Canfor exercised its option to convert the loan into an ownership interest in the forest license.

Liquidity and Financial Requirements

At March 31, 2016, the Company on a consolidated basis had cash of $132.7 million, $205.0 million drawn on its operating loans, and an additional $48.5 million reserved for several standby letters of credit. During the quarter, the company drew $47.0 million on its operating loan and had total available undrawn operating loans at period end of $266.2 million.

Excluding CPPI, the Company's bank operating loans at March 31, 2016 totaled $350.0 million, of which $205.0 million was drawn, and an additional $39.4 million reserved for several standby letters of credit, the majority of which related to unregistered pension plans. 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.

In 2015, the Company priced a US$100.0 million financing, repayable in three equal tranches on October 2, 2023, October 2, 2024 and the balance due on October 2, 2025, and entered into a new eight-year floating interest rate term loan for an additional US$100.0 million.

At March 31, 2016, CPPI had a $110.0 million bank loan facility with a maturity date of January 31, 2019 and no amounts drawn and a $20.0 million facility to cover letters of credit with a maturity of June 30, 2016. At March 31, 2016, CPPI had $9.1 million in standby letters of credit covered under its operating loan facilities.

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

The Company's consolidated net debt to total capitalization at the end the first quarter of 2016 was 24.0%. For Canfor, excluding CPPI, net debt to capitalization at the end of the first quarter of 2016 was 25.9%.

On March 7, 2016, the Company renewed its normal course issuer bid whereby it can purchase for cancellation up to 6,640,227 common shares or approximately 5% of its issued and outstanding common shares as of March 1, 2016. The renewed normal course issuer bid is set to expire on March 6, 2017. During the first quarter of 2016, Canfor did not purchase any common shares. As at April 26, 2016, there were 132,804,573 common shares of the Company outstanding. Under a separate normal course issuer bid, CPPI purchased shares from non-controlling shareholders increasing Canfor's ownership from 51.9% at December 31, 2015 to 52.4% at April 26, 2016. Canfor and CPPI may purchase more shares through the balance of 2016 subject to the terms of their normal course issuer bids.

Commitments and Subsequent Events

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

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

On April 15, 2016, the Company completed the acquisition of the assets of Wynndel Box and Lumber Ltd. for an aggregate purchase price, excluding working capital, of $31.6 million which will be paid in three installments over an 18 month period. Wynndel produces premium boards and customized specialty wood products, and has access to exceptionally high-quality fibre. The acquisition of assets includes a sawmill located in the Creston Valley of BC, with annual production capacity of 65 million board feet, and approximately 65,000 cubic meters of annual harvesting rights in the Kootenay Lake Timber Supply Area.

OUTLOOK

Lumber

The US housing market is forecast to continue its gradual recovery through 2016. The Company is projected to benefit from seasonally stronger demand and prices for wide dimensions and specialty lumber products through the second quarter, particularly in the US South where these grades represent a significant proportion of its product profile. For the Company's key offshore lumber markets, demand is anticipated to be solid through the second quarter, with steady takeaway projected for its China and Japan markets. The recent strengthening of the Canadian dollar is anticipated to offset improvements in US-dollar prices in the second quarter of 2016.

Pulp and Paper

In the pulp and paper segment, relatively balanced global softwood pulp markets heading into the annual spring maintenance period may support a modest NBSK pulp price increase through the second quarter of 2016. In the latter half of 2016, there remains a risk of price weakness due in part to previously announced significant new global pulp capacity coming online. For May 2016, the Company announced NBSK pulp list prices of US$980 per tonne in North America, an increase of US$30 per tonne from March 2016. The recent strengthening of the Canadian dollar is anticipated to offset improvements in US-dollar prices in the second quarter of 2016.

Results in the second quarter of 2016 will be impacted by maintenance outages planned at the Northwood and Intercontinental pulp mills with a projected 38,000 tonnes of reduced NBSK pulp production, higher associated maintenance costs and lower projected shipment volumes. The Prince George pulp mill has a maintenance outage scheduled for the third quarter of 2016 and the Taylor BCTMP mill will complete a maintenance outage in the fourth quarter of 2016.

OUTSTANDING SHARES

At April 26, 2016, there were 132,804,573 common shares of the Company outstanding.

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with International Financial Reporting Standards requires management to make estimates and assumptions that affect the amounts recorded in the financial statements. On an ongoing basis, management reviews its estimates, including those related to useful lives for amortization, impairment of long-lived assets, certain accounts receivable, pension and other employee future benefit plans and asset retirement and deferred reforestation obligations based upon currently available information. While it is reasonably possible that circumstances may arise which cause actual results to differ from these estimates, management does not believe it is likely that any such differences will materially affect the Company's financial condition.

ACCOUNTING STANDARDS ISSUED AND NOT APPLIED

In May 2014, the 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.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

During the quarter ended March 31, 2016, there were no changes in the Company's internal controls over financial reporting that materially affected, or would be reasonably likely to materially affect, such controls.

RISKS AND UNCERTAINTIES

A comprehensive discussion of risks and uncertainties is included in the Company's 2015 annual statutory reports which are available on www.canfor.com or www.sedar.com.

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

<u>Softwood Lumber Agreement</u>

On October 12, 2015, the Softwood Lumber Agreement expired. The SLA provides a standstill period of one year following the expiry of the SLA 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 U.S. will be reached. In the event no agreement is reached, there is a material risk of US trade action being initiated against Canadian lumber producers which could result in the imposition of duties on lumber shipments to the US.

SELECTED QUARTERLY FINANCIAL INFORMATION

	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015	Q4 2014	Q3 2014	Q2 2014
Sales and income (millions of Canadian dollars)								
Sales	**$ 1,067.9**	$ 1,053.0	$ 989.9	$ 952.4	$ 930.0	$ 860.4	$ 838.0	$ 907.3
Operating income	**$ 65.1**	$ 31.8	$ 8.5	$ 17.6	$ 83.7	$ 62.0	$ 85.6	$ 97.3
Net income	**$ 42.3**	$ 19.6	$ 1.4	$ 23.9	$ 47.0	$ 40.5	$ 58.2	$ 64.5
Shareholder net income (loss)	**$ 26.0**	$ 1.6	$ (17.3)	$ 11.1	$ 29.3	$ 29.9	$ 45.5	$ 54.3
Per common share (Canadian dollars)								
Shareholder net income (loss) – basic and diluted	**$ 0.20**	$ 0.01	$ (0.13)	$ 0.08	$ 0.22	$ 0.22	$ 0.34	$ 0.39
Book value[17]	**$ 9.91**	$ 10.02	$ 10.00	$ 9.86	$ 9.76	$ 10.25	$ 10.24	$ 9.75
Statistics								
Lumber shipments (MMfbm)	**1,362**	1,361	1,343	1,367	1,172	1,092	1,124	1,236
Pulp shipments (000 mt)	**319**	356	307	292	287	314	291	314
Average exchange rate – US$/Cdn$	**$ 0.728**	$ 0.749	$ 0.764	$ 0.813	$ 0.806	$ 0.881	$ 0.918	$ 0.917
Average Western SPF 2x4 #2&Btr lumber price (US$)	**$ 272**	$ 263	$ 269	$ 270	$ 308	$ 340	$ 357	$ 335
Average SYP (East) 2x4 #2 lumber price (US$)	**$ 407**	$ 400	$ 331	$ 383	$ 413	$ 427	$ 438	$ 405
Average NBSK pulp list price delivered to U.S. (US$)	**$ 943**	$ 945	$ 967	$ 980	$ 995	$ 1,025	$ 1,030	$ 1,030

[17] Book value per common share is equal to shareholders' equity at the end of the period, divided by the number of common shares outstanding at the end of the period.

Other material factors that impact the comparability of the quarters are noted below:

After-tax impact, net of non-controlling interests (millions of Canadian dollars, except for per share amounts)	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015	Q4 2014	Q3 2014	Q2 2014
Shareholder net income (loss), as reported	**$ 26.0**	$ 1.6	$ (17.3)	$ 11.1	$ 29.3	$ 29.9	$ 45.5	$ 54.3
(Gain) loss on derivative financial instruments	**$ 1.8**	$ (1.2)	$ 9.3	$ (7.7)	$ 17.2	$ 5.2	$ 0.7	$ (2.1)
Foreign exchange (gain) loss on long-term debt	**$ (6.9)**	$ 5.1	$ -	$ -	$ -	$ -	$ -	$ -
One-time costs associated with pension plan legislation changes	**$ -**	$ 2.4	$ -	$ -	$ -	$ -	$ -	$ -
Mill closure provisions[18]	**$ -**	$ -	$ 14.4	$ -	$ -	$ -	$ -	$ -
Gain on investment in Lakeland Mills Ltd. and Winton Global Lumber Ltd.[19]	**$ -**	$ -	$ -	$ (6.1)	$ -	$ -	$ -	$ -
Mark-to-market loss on Taylor pulp mill contingent consideration, net[20]	**$ -**	$ -	$ -	$ 0.7	$ -	$ -	$ -	$ -
Mark-to-market adjustment to Canfor-LP OSB sale contingent consideration	**$ -**	$ -	$ -	$ -	$ -	$ -	$ 4.5	$ 4.5
Net impact of above items	**$ (5.1)**	$ 6.3	$ 23.7	$ (13.1)	$ 17.2	$ 5.2	$ 5.2	$ 2.4
Adjusted shareholder net income (loss)	**$ 20.9**	$ 7.9	$ 6.4	$ (2.0)	$ 46.5	$ 35.1	$ 50.7	$ 56.7
Shareholder net income (loss) per share (EPS), as reported	**$ 0.20**	$ 0.01	$ (0.13)	$ 0.08	$ 0.22	$ 0.22	$ 0.34	$ 0.39
Net impact of above items per share[21]	**$ (0.04)**	$ 0.05	$ 0.18	$ (0.10)	$ 0.13	$ 0.04	$ 0.04	$ 0.02
Adjusted net income (loss) per share	**$ 0.16**	$ 0.06	$ 0.05	$ (0.02)	$ 0.35	$ 0.26	$ 0.38	$ 0.41

[18] During the third quarter of 2015, the Company recorded one-time costs of $19.4 million (before tax) associated with the announced closure of the Canal Flats sawmill

[19] On July 1, 2015, Canfor sold its 33.3% interest in Lakeland Mills Ltd. and Winton Global Lumber Ltd. for $30.0 million and recognized a $7.0 million gain (before-tax).

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

[21] The year-to-date net impact of the adjusting items per share and adjusted net income per share does not equal the sum of the quarterly per share amounts due to rounding.

Canfor Corporation
Condensed Consolidated Balance Sheets

(millions of Canadian dollars, unaudited)		As at March 31, 2016		As at December 31, 2015
ASSETS				
Current assets				
Cash and cash equivalents	$	132.7	$	97.5
Accounts receivable - Trade		197.0		191.8
- Other		67.2		61.1
Inventories (Note 2)		643.2		587.2
Prepaid expenses		56.9		53.2
Total current assets		1,097.0		990.8
Property, plant and equipment		1,421.5		1,445.1
Timber licenses		541.9		515.2
Goodwill and other intangible assets		227.5		241.0
Long-term investments and other (Note 3)		67.5		98.6
Retirement benefit surplus (Note 5)		1.0		2.7
Deferred income taxes, net		1.6		1.2
Total assets	$	3,358.0	$	3,294.6
LIABILITIES				
Current liabilities				
Operating loans (Note 4(a))	$	205.0	$	158.0
Accounts payable and accrued liabilities		377.4		350.3
Current portion of deferred reforestation obligations		50.7		50.7
Forward purchase liabilities (Note 11)		112.3		76.1
Total current liabilities		745.4		635.1
Long-term debt (Note 4(b))		440.1		456.2
Retirement benefit obligations (Note 5)		281.0		258.6
Deferred reforestation obligations		73.5		61.6
Other long-term liabilities		19.2		20.1
Forward purchase liability (Note 11)		-		43.0
Deferred income taxes, net		180.0		192.3
Total liabilities	$	1,739.2	$	1,666.9
EQUITY				
Share capital	$	1,047.7	$	1,047.7
Contributed surplus and other equity		(74.5)		(74.5)
Retained earnings		266.8		257.7
Accumulated foreign exchange translation of foreign operations		75.5		100.0
Total equity attributable to equity shareholders of the Company		1,315.5		1,330.9
Non-controlling interests		303.3		296.8
Total equity	$	1,618.8	$	1,627.7
Total liabilities and equity	$	3,358.0	$	3,294.6

Subsequent Event (Note 12)

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

APPROVED BY THE BOARD

Director, R.S. Smith

Director, M.J. Korenberg

Canfor Corporation
Condensed Consolidated Statements of Income

(millions of Canadian dollars, except per share data, unaudited)	3 months ended March 31, **2016**	2015
Sales	**$ 1,067.9**	$ 930.0
Costs and expenses		
Manufacturing and product costs	**750.0**	625.8
Freight and other distribution costs	**167.9**	146.2
Amortization	**60.6**	49.3
Selling and administration costs	**24.4**	22.3
Restructuring, mill closure and severance costs	**1.0**	2.7
	$ 1,003.9	$ 846.3
Equity income (Note 3)	**1.1**	-
Operating income	**65.1**	83.7
Finance expense, net	**(8.2)**	(5.3)
Foreign exchange gain on long-term debt	**7.9**	-
Loss on derivative financial instruments (Note 6)	**(2.4)**	(28.0)
Foreign exchange gain (loss) on working capital and other income (expense), net	**(10.1)**	10.8
Net income before income taxes	**52.3**	61.2
Income tax expense (Note 7)	**(10.0)**	(14.2)
Net income	**$ 42.3**	$ 47.0
Net income attributable to:		
Equity shareholders of the Company	**$ 26.0**	$ 29.3
Non-controlling interests	**16.3**	17.7
Net income	**$ 42.3**	$ 47.0
Net income per common share: (in Canadian dollars)		
Attributable to equity shareholders of the Company		
- Basic and diluted (Note 8)	**$ 0.20**	$ 0.22

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

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

(millions of Canadian dollars, unaudited)	3 months ended March 31, 2016	2015
Net income	**$ 42.3**	$ 47.0
Other comprehensive income (loss)		
Items that will not be recycled through net income:		
Defined benefit plan actuarial losses (Note 5)	**(23.8)**	(4.3)
Income tax recovery on defined benefit plan actuarial losses (Note 7)	**6.2**	1.1
	(17.6)	(3.2)
Items that may be recycled through net income:		
Foreign exchange translation of foreign operations, net of tax	**(24.5)**	34.3
Other comprehensive income (loss), net of tax	**(42.1)**	31.1
Total comprehensive income	**$ 0.2**	$ 78.1
Total comprehensive income (loss) attributable to:		
Equity shareholders of the Company	**$ (14.4)**	$ 61.5
Non-controlling interests	**14.6**	16.6
Total comprehensive income	**$ 0.2**	$ 78.1

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

Canfor Corporation
Condensed Consolidated Statements of Changes in Equity

(millions of Canadian dollars, unaudited)	3 months ended March 31, 2016	2015
Share capital		
Balance at beginning of period	**$ 1,047.7**	$ 1,068.0
Share purchases (Note 8)	**-**	(8.7)
Balance at end of period	**$ 1,047.7**	$ 1,059.3
Contributed surplus and other equity		
Balance at beginning of period	**$ (74.5)**	$ 31.9
Forward purchase liabilities related to acquisitions (Note 11)	**-**	(106.4)
Balance at end of period	**$ (74.5)**	$ (74.5)
Retained earnings		
Balance at beginning of period	**$ 257.7**	$ 260.1
Net income attributable to equity shareholders of the Company	**26.0**	29.3
Defined benefit plan actuarial losses, net of tax	**(15.9)**	(2.1)
Share purchases (Note 8)	**-**	(20.6)
Acquisition of non-controlling interests (Note 8)	**(1.0)**	(1.8)
Balance at end of period	**$ 266.8**	$ 264.9
Accumulated foreign exchange translation		
Balance at beginning of period	**$ 100.0**	$ 27.2
Foreign exchange translation of foreign operations, net of tax	**(24.5)**	34.3
Balance at end of period	**$ 75.5**	$ 61.5
Total equity attributable to equity holders of the Company	**$ 1,315.5**	$ 1,311.2
Non-controlling interests		
Balance at beginning of period	**$ 296.8**	$ 250.4
Net income attributable to non-controlling interests	**16.3**	17.7
Defined benefit plan actuarial losses attributable to non-controlling interests, net of taxes	**(1.7)**	(1.1)
Distributions to non-controlling interests	**(4.2)**	(3.0)
Acquisition of non-controlling interests (Note 8)	**(3.9)**	(5.2)
Non-controlling interests arising on acquisitions (Note 11)	**-**	52.5
Balance at end of period	**$ 303.3**	$ 311.3
Total equity	**$ 1,618.8**	$ 1,622.5

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

Canfor Corporation
Condensed Consolidated Statements of Cash Flows

(millions of Canadian dollars, unaudited)	3 months ended March 31, 2016	2015
Cash generated from (used in):		
Operating activities		
Net income	**$ 42.3**	$ 47.0
Items not affecting cash:		
Amortization	**60.6**	49.3
Income tax expense	**10.0**	14.2
Long-term portion of deferred reforestation obligations	**11.8**	12.4
Foreign exchange gain on long-term debt	**(7.9)**	-
Changes in mark-to-market value of derivative financial instruments	**0.2**	19.1
Employee future benefits	**3.2**	3.7
Finance expense, net	**8.2**	5.3
Equity income	**(1.1)**	-
Other, net	**0.4**	2.6
Defined benefit pension plan contributions, net	**(5.2)**	3.0
Income taxes paid, net	**(13.6)**	(22.0)
	108.9	134.6
Net change in non-cash working capital (Note 9)	**(58.0)**	(101.2)
	50.9	33.4
Financing activities		
Change in operating bank loans (Note 4(a))	**47.0**	115.0
Finance expenses paid	**(4.1)**	(2.6)
Share purchases (Note 8)	**-**	(26.0)
Acquisition of non-controlling interests (Note 8)	**(5.0)**	(1.7)
Cash distributions paid to non-controlling interests	**(4.2)**	(3.0)
	33.7	81.7
Investing activities		
Additions to property, plant and equipment and intangible assets, net	**(47.1)**	(45.8)
Acquisitions (Note 11)	**-**	(73.1)
Change in restricted cash	**-**	50.2
Other, net	**1.6**	1.1
	(45.5)	(67.6)
Foreign exchange gain (loss) on cash and cash equivalents	**(3.9)**	8.4
Increase in cash and cash equivalents*	**35.2**	55.9
Cash and cash equivalents at beginning of period*	**97.5**	158.3
Cash and cash equivalents at end of period*	**$ 132.7**	$ 214.2

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

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

1. Basis of Preparation

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

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

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

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

Accounting Standards Issued and Not Applied

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

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

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

2. Inventories

(millions of Canadian dollars, unaudited)		**As at March 31, 2016**		As at December 31, 2015
Logs	**$**	**220.7**	$	169.1
Finished products		**285.2**		285.4
Residual fibre		**25.3**		20.8
Processing materials and supplies		**112.0**		111.9
	$	**643.2**	$	587.2

The above inventory balances are stated after inventory write-downs from cost to net realizable value. Write-downs at March 31, 2016 totaled $1.2 million (December 31, 2015 - $0.5 million).

3. Long-Term Investments and Other

(millions of Canadian dollars, unaudited)		As at March 31, 2016		As at December 31, 2015
Investments	**$**	**15.4**	$	16.2
Conifex timber investment loan		**-**		30.5
Equity investment in Anthony EACOM Inc.		**17.3**		16.2
Lakeland Winton receivable		**15.0**		15.0
Other deposits, loans and advances		**19.8**		20.7
	$	**67.5**	$	98.6

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 meters of annual allowable cut. On February 12, 2016, Canfor exercised its option to convert the loan into an ownership interest in the forest license. Upon exercising of the option, the timber investment loan was derecognized and timber additions of $30.6 million were recorded under Timber Licenses.

As part of the acquisition of Anthony Forest Products Company (Note 11), 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. For the three months ended March 31, 2016, the Company's share of the joint venture's sales was $6.0 million and net income was $1.1 million. At March 31, 2016, the carrying value of the equity investment is $17.3 million (December 31, 2015 - $16.2 million).

4. Operating Loans and Long-Term Debt

(a) Available Operating Loans

(millions of Canadian dollars, unaudited)		As at March 31, 2016		As at December 31, 2015
Canfor (excluding CPPI)				
Available Operating Loans:				
Operating loan facility	**$**	**350.0**	$	350.0
Facility for letters of credit		**39.7**		39.7
Total operating loans		**389.7**		389.7
Operating loan drawn		**(205.0)**		(158.0)
Letters of credit		**(39.4)**		(39.7)
Total available operating loans - Canfor	**$**	**145.3**	$	192.0
CPPI				
Available Operating Loans:				
Operating loan facility	**$**	**110.0**	$	110.0
Facility for letters of credit		**20.0**		20.0
Total operating loans		**130.0**		130.0
Letters of credit		**(9.1)**		(13.0)
Total available operating loans - CPPI	**$**	**120.9**	$	117.0
Consolidated:				
Total operating loans	**$**	**519.7**	$	519.7
Total available operating loans	**$**	**266.2**	$	309.0

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

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

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

Canfor (excluding CPPI) has a separate facility to cover letters of credit. At March 31, 2016, $36.8 million of letters of credit are covered under this facility with the balance of $2.6 million covered under Canfor's general operating loan facility.

CPPI has a separate facility to cover letters of credit. During 2015, CPPI extended the maturity on this facility to June 30, 2016. At March 31, 2016, $6.1 million of letters of credit are covered under this facility with the balance of $3.0 million covered under CPPI's general operating loan facility.

As at March 31, 2016, the Company and CPPI are in compliance with all covenants relating to their operating loans. Substantially all borrowings of CPPI are non-recourse to other entities within the Company.

(b) Long-Term Debt

At March 31, 2016, the fair value of the Company's long-term debt is $439.5 million (December 31, 2015 - $448.1 million). The fair value was determined based on prevailing market rates for long-term debt with similar characteristics and risk profile.

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

On October 2, 2015, the Company issued US$100.0 million of senior unsecured notes, bearing interest at 4.40%. 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 March 31, 2016, the Company and CPPI are in compliance with all covenants relating to their long-term debt.

5. Employee Future Benefits

For the three months ended March 31, 2016, defined benefit actuarial losses of $23.8 million (before tax) were recognized in other comprehensive income (loss). The losses recorded in the first quarter of 2016 principally reflect a lower return on plan assets and a slightly lower discount rate used to value the net defined benefit obligations. For the three months ended March 31, 2015, an amount of $4.3 million (before tax) was charged to other comprehensive income (loss).

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

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

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

6. Financial Instruments

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

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

The three levels of the fair value hierarchy are:

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

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

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

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

(millions of Canadian dollars, unaudited)	Fair Value Hierarchy Level		**As at March 31, 2016**		As at December 31, 2015
Financial assets measured at fair value					
Investments - held for trading	Level 1	**$**	**14.9**	$	17.2
Royalty receivable - available for sale	Level 3		**-**		0.2
		$	**14.9**	$	17.4
Financial liabilities measured at fair value					
Derivative financial instruments - held for trading	Level 2	**$**	**5.0**	$	4.8
		$	**5.0**	$	4.8

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 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 March 31, 2016, the fair value of derivative financial instruments is a net liability of $5.0 million (December 31, 2015 - net liability of $4.8 million). The fair value of these financial instruments was determined based on prevailing market rates for instruments with similar characteristics.

The following table summarizes the losses on derivative financial instruments for the three month periods ended March 31, 2016 and 2015:

(millions of Canadian dollars, unaudited)	3 months ended March 31, **2016**	2015
Foreign exchange collars and forward contracts	**$ -**	$ (21.8)
Energy derivatives	**(1.5)**	(2.6)
Lumber futures	**(1.0)**	(2.3)
Interest rate swaps	**0.1**	(1.3)
Loss on derivative financial instruments	**$ (2.4)**	$ (28.0)

7. Income Taxes

(millions of Canadian dollars, unaudited)	3 months ended March 31, **2016**	2015
Current	**$ (14.1)**	$ (21.3)
Deferred	**4.1**	7.1
Income tax expense	**$ (10.0)**	$ (14.2)

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

(millions of Canadian dollars, unaudited)	3 months ended March 31, **2016**	2015
Income tax expense at statutory rate 2016 - 26.0% (2015 - 26.0%)	**$ (13.6)**	$ (15.9)
Add (deduct):		
Non-taxable income related to non-controlling interests	**1.3**	1.0
Permanent difference from capital gains and losses and other non-deductible items	**1.2**	(0.2)
Entities with different income tax rates and other tax adjustments	**1.1**	0.9
Income tax expense	**$ (10.0)**	$ (14.2)

In addition to the amounts recorded to net income, a tax recovery of $6.2 million was recorded to other comprehensive income (loss) for the three months ended March 31, 2016 (three months ended March 31, 2015 - tax recovery of $1.1 million) in relation to the actuarial losses on defined benefit employee compensation plans.

Also included in other comprehensive income (loss) for the three months ended March 31, 2016 was a tax recovery of $2.2 million related to foreign exchange differences on translation of investments in foreign operations (three months ended March 31, 2015 - tax expense of $2.5 million).

8. Earnings Per Share and Normal Course Issuer Bid

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

	3 months ended March 31, **2016**	2015
Weighted average number of common shares	**132,804,573**	135,158,503

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

Under a separate normal course issuer bid, CPPI purchased 412,673 common shares for $4.9 million (an average of $11.87 per common share) from non-controlling shareholders. At April 26, 2016, Canfor's ownership interest in CPPI was 52.4%.

9. Net Change in Non-Cash Working Capital

(millions of Canadian dollars, unaudited)	3 months ended March 31, **2016**	2015
Accounts receivable	**$ (17.3)**	$ (38.9)
Inventories	**(60.8)**	(96.9)
Prepaid expenses	**(5.0)**	(12.8)
Accounts payable, accrued liabilities and current portion of deferred reforestation obligations	**25.1**	47.4
Net increase in non-cash working capital	**$ (58.0)**	$ (101.2)

10. Segment Information

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

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

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

(millions of Canadian dollars, unaudited)		Lumber	Pulp & Paper	Unallocated & Other	Elimination Adjustment		Consolidated
3 months ended March 31, 2016							
Sales to external customers	**$**	**772.6**	**295.3**	**-**	**-**	**$**	**1,067.9**
Sales to other segments	**$**	**44.2**	**-**	**-**	**(44.2)**	**$**	**-**
Operating income (loss)	**$**	**33.4**	**39.1**	**(7.4)**	**-**	**$**	**65.1**
Amortization	**$**	**40.8**	**18.7**	**1.1**	**-**	**$**	**60.6**
Capital expenditures[1]	**$**	**33.2**	**13.1**	**0.8**	**-**	**$**	**47.1**
Identifiable assets	**$**	**2,322.5**	**820.3**	**215.2**	**-**	**$**	**3,358.0**
3 months ended March 31, 2015							
Sales to external customers	$	647.0	283.0	-	-	$	930.0
Sales to other segments	$	42.5	-	-	(42.5)	$	-
Operating income (loss)	$	48.3	43.0	(7.6)	-	$	83.7
Amortization	$	32.2	15.9	1.2	-	$	49.3
Capital expenditures[1]	$	30.8	13.5	1.5	-	$	45.8
Identifiable assets	$	2,061.3	788.2	283.8	-	$	3,133.3

[1]Capital expenditures represent cash paid for capital assets during the periods. Pulp & Paper includes capital expenditures by CPPI that were partially financed by government grants. Capital expenditures for the three months ended March 31, 2015 exclude the assets purchased as part of the acquisitions of Scotch & Gulf Lumber, LLC ("Scotch Gulf") and Beadles Lumber Company & Balfour Lumber Company Inc. ("Beadles & Balfour") (Note 11).

11. 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, unaudited) **Company**	**Ownership as at March 31, 2016**	**Acquisition Date**		**Consideration Paid to Date**
Scotch & Gulf Lumber, LLC	50%	January 30, 2015	**$**	**69.9**
Beadles Lumber Company & Balfour Lumber Company Inc.	55%	January 2, 2015		**51.6**
Southern Lumber Company Inc.	100%	April 1, 2015		**65.6**
Anthony Forest Products Company	100%	October 30, 2015		**126.8**
Total consideration paid to date			**$**	**313.9**

As a result of these acquisitions, Canfor acquired seven sawmills, two laminating facilities, two chip plants and one treating facility located in the US South, with facilities in Georgia, Alabama, Mississippi, Arkansas, Louisiana and Texas. In addition, Canfor acquired a 50% interest in an I-joist facility located in Ontario, Canada. The acquisitions of Scotch Gulf 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 $71.7 million for the final step of the Scotch Gulf phased acquisition and $40.6 million for the final step of the Beadles & Balfour phased acquisition. Canfor calculated the non-controlling interest related to Scotch Gulf and Beadles & Balfour as the non-controlling share of the fair value of the net identifiable assets at the acquisition date for each of Scotch Gulf and Beadles & Balfour. All of the acquisitions were accounted for in accordance with IFRS 3, *Business Combinations*.

12. Subsequent Event

Subsequent to period end, on April 15, 2016, the Company completed the acquisition of the assets of Wynndel Box and Lumber Ltd. for an aggregate purchase price, excluding working capital, of approximately $31.6 million, which will be paid in three installments over an 18-month period. Given the acquisition date, Canfor will be completing the purchase price allocation in the second quarter of 2016.