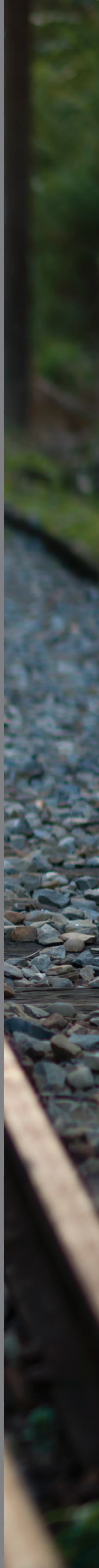
2015

CANFOR CORPORATION

QUARTER FOUR INTERIM REPORT

FOR THE THREE MONTHS ENDED DEC 31, 2015



2 Message to Shareholders

4 Condensed Consolidated Balance Sheets

5 Condensed Consolidated Statements of Income

6 Condensed Consolidated Statements of Other Comprehensive Income (Loss)

7 Condensed Consolidated Statements of Changes in Equity

8 Condensed Consolidated Statements of Cash Flows

9 Notes to the Condensed Consolidated Financial Statements

To Our Shareholders

Canfor Corporation reported net income attributable to shareholders ("shareholder net income") of $1.6 million, or $0.01 per share, for the fourth quarter of 2015, compared to a net loss attributable to shareholders of $17.3 million, or $0.13 per share, for the third quarter of 2015 and shareholder net income of $29.9 million, or $0.22 per share, for the fourth quarter of 2014. For the twelve months ended December 31, 2015, the Company's shareholder net income was $24.7 million, or $0.18 per share, compared to shareholder net income of $175.2 million, or $1.28 per share, reported for the comparable period of 2014.

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

(millions of Canadian dollars, except per share amounts)	Q4 2015	Q3 2015	YTD 2015	Q4 2014	YTD 2014
Sales	**$ 1,053.0**	$ 989.9	**$ 3,925.3**	$ 860.4	$ 3,347.6
Operating income before amortization[1]	**$ 94.9**	$ 80.5	**$ 378.2**	$ 108.9	$ 511.8
Operating income[1]	**$ 35.0**	$ 27.9	**$ 164.2**	$ 62.0	$ 329.3
Net income (loss) attributable to equity shareholders of the Company	**$ 1.6**	$ (17.3)	**$ 24.7**	$ 29.9	$ 175.2
Net income (loss) per share attributable to equity shareholders of the Company, basic and diluted	**$ 0.01**	$ (0.13)	**$ 0.18**	$ 0.22	$ 1.28
Adjusted shareholder net income	**$ 7.9**	$ 6.4	**$ 58.8**	$ 35.1	$ 188.9
Adjusted shareholder net income per share, basic and diluted	**$ 0.06**	$ 0.05	**$ 0.43**	$ 0.26	$ 1.38

[1] Adjusted for one-time items, including $3.2 million associated with pension plan legislative changes in the fourth quarter of 2015 and $19.4 million associated with the permanent closure of the Canal Flats sawmill in the third quarter of 2015.

After adjusting for items affecting comparability with the prior periods, the Company's adjusted shareholder net income for the fourth quarter of 2015 was $7.9 million, or $0.06 per share, compared to an adjusted shareholder net income of $6.4 million, or $0.05 per share, for the third quarter of 2015, and an adjusted shareholder net income of $35.1 million, or $0.26 per share for the fourth quarter of 2014. For 2015, the Company's adjusted shareholder net income was $58.8 million, or $0.43 per share, compared to $188.9 million, or $1.38 per share, for 2014.

The Company reported operating income, after one-time items, of $35.0 million for the fourth quarter of 2015, up $7.1 million from similarly-adjusted operating income of $27.9 million for the third quarter of 2015. Improved lumber segment results reflected an increase in Southern Yellow Pine ("SYP") unit sales realizations, improved lumber productivity, the Company's acquisition of Anthony Forest Products Company ("Anthony" or "Anthony Forest Products"), which completed on October 30, 2015, as well as the benefits of a weaker Canadian dollar. Pulp and paper segment results reflected increased pulp production and shipment volumes as well as higher energy revenues, which largely offset slightly lower Northern Bleached Softwood Kraft ("NBSK") pulp sales realizations and costs associated with the scheduled maintenance outage at the Company's Northwood pulp mill in October.

North American lumber demand remained relatively stable during the fourth quarter of 2015, with builders capitalizing on mild weather in many parts of the US and Canada. US housing starts were down 2% from the previous quarter, averaging 1,133,000 units on a seasonally adjusted basis, while Canadian housing starts reflected a modest seasonal slowdown, declining 7% at an average of 196,000 units on a seasonally adjusted basis. The lumber market in China improved somewhat through the fourth quarter of 2015, with inventory levels ending the year well down from the previous quarter. Lumber demand in other offshore markets, such as Japan and Korea, remained solid.

The average benchmark North American Random Lengths Western Spruce/Pine/Fir ("SPF") 2x4 #2&Btr price was US$263 per Mfbm in the fourth quarter of 2015, down US$6 per Mfbm compared to the previous quarter. Western SPF sales realizations were in line with the third quarter as the benefit of a 2 cent, or 2%, weaker Canadian dollar and reduced export tax on US bound shipments, following the expiry of the Softwood Lumber Agreement ("SLA"), offset the slightly lower US-dollar benchmark lumber prices. SYP sales realizations in the fourth quarter of 2015 were up from the third quarter of 2015, reflecting for the most part a solid increase in the 2x4 #2 price, smaller increases in the prices for 2x6 and 2x8 and a modest price decline for 2x10 and 2x12 dimensions.

Lumber shipments were in line with the previous quarter while lumber production was up approximately 6%, largely reflecting productivity improvements, particularly at the Company's Western Canadian operations, additional operating days in the quarter and the addition of Anthony Forest Products, all of which more than offset the impact of the Canal Flats sawmill permanent closure in November. Unit manufacturing costs in the fourth quarter of 2015 were in line with the previous quarter as improved productivity offset increased energy costs due to seasonally higher energy usage.

Global softwood pulp markets weakened somewhat through most of the fourth quarter of 2015, before stabilizing towards the end of the year, reflecting to some extent recent increases in hardwood pulp supply, particularly in China. The average NBSK pulp list price to North America, as published by RISI, was down US$22 per tonne, or 2%, to US$945 per tonne while more pronounced declines were seen in average US-dollar NBSK pulp list prices to China and Europe. Overall, however, NBSK pulp unit sales realizations were down only slightly from the third quarter of 2015 as the continued weakening of the Canadian dollar mitigated the impact of lower prices. Bleached Chemi-Thermo Mechanical Pulp (“BCTMP”) markets remained under pressure in the fourth quarter of 2015, with unit sales realizations down slightly compared to the previous quarter. In December, the Company temporarily curtailed operations at the Taylor pulp mill for eight days in response to challenging BCTMP market conditions.

Pulp shipments were up 16% from the previous quarter reflecting solid demand for the Company’s NBSK premium reinforcing pulp products. Pulp production was up approximately 4%, as improved operating rates and additional operating days more than offset the impact of the Northwood pulp mill scheduled maintenance outage which reduced market pulp production by 20,000 tonnes in the current quarter (compared to 6,000 tonnes in the third quarter). Pulp unit manufacturing costs were up slightly from the previous quarter, for the most part reflecting costs associated with the Northwood pulp mill maintenance outage and seasonally higher energy costs, which more than offset lower fibre costs and improved productivity. Higher energy revenues generated at the NBSK pulp mills in the fourth quarter of 2015 reflected a combination of additional operating days and seasonally higher energy prices in the current quarter.

Looking ahead, the Company is projected to benefit from the weaker Canadian dollar and its recent growth in the US South. North American lumber demand is forecast to improve with steady demand in both residential construction and the repair and remodeling sectors. Offshore lumber shipments are projected to be stable with relatively steady volume forecast to both China and Japan in the first quarter of 2016. For the month of January 2016, NBSK pulp list prices were unchanged in North America at US$940 per tonne, while prices to China decreased US$5 to US$590 per tonne. For the month of March 2016, the Company has announced a list price of US$960 per tonne in North America. In the next twelve months, the Company will complete its phased acquisitions of Scotch Gulf and Beadles & Balfour as well as its acquisition of Wynndel Box & Lumber Ltd.

Refer to the Company’s Annual Management’s Discussion and Analysis for further discussion on the Company’s results for the fourth quarter of 2015.

Michael J. Korenberg
Chairman

Don B. Kayne
President and Chief Executive Officer

Canfor Corporation
Condensed Consolidated Balance Sheets

(millions of Canadian dollars, unaudited)	**As at December 31, 2015**	As at December 31, 2014
ASSETS		
Current assets		
Cash and cash equivalents	**$ 97.5**	$ 158.3
Restricted cash	**-**	50.2
Accounts receivable - Trade	**191.8**	91.3
- Other	**61.1**	38.8
Inventories	**587.2**	517.7
Prepaid expenses and other assets	**53.2**	46.3
Total current assets	**990.8**	902.6
Property, plant and equipment	**1,445.1**	1,216.1
Timber licenses	**515.2**	519.5
Goodwill and other intangible assets	**241.0**	105.0
Retirement benefit surplus	**2.7**	0.6
Long-term investments and other	**98.6**	101.3
Deferred income taxes, net	**1.2**	1.7
Total assets	**$ 3,294.6**	$ 2,846.8
LIABILITIES		
Current liabilities		
Operating loans	**$ 158.0**	$ 68.0
Accounts payable and accrued liabilities	**350.3**	305.8
Current portion of deferred reforestation obligations	**50.7**	52.1
Forward purchase liability	**76.1**	-
Total current liabilities	**635.1**	425.9
Long-term debt	**456.2**	228.6
Retirement benefit obligations	**258.6**	263.2
Deferred reforestation obligations	**61.6**	60.0
Other long-term liabilities	**20.1**	19.6
Forward purchase liability	**43.0**	-
Deferred income taxes, net	**192.3**	211.9
Total liabilities	**$ 1,666.9**	$ 1,209.2
EQUITY		
Share capital	**$ 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	**296.8**	250.4
Total equity	**$ 1,627.7**	$ 1,637.6
Total liabilities and equity	**$ 3,294.6**	$ 2,846.8

Subsequent Event (Note 7)

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 December 31, **2015**	3 months ended December 31, 2014	12 months ended December 31, **2015**	12 months ended December 31, 2014
Sales	**$ 1,053.0**	$ 860.4	**$ 3,925.3**	$ 3,347.6
Costs and expenses				
Manufacturing and product costs	**755.7**	591.8	**2,780.8**	2,201.9
Freight and other distribution costs	**176.1**	137.7	**646.9**	548.6
Export taxes	**3.3**	-	**28.1**	-
Amortization	**59.9**	46.9	**214.0**	182.5
Selling and administration costs	**25.8**	20.5	**89.8**	78.5
Restructuring, mill closure and severance costs	**1.0**	1.5	**24.7**	6.8
	1,021.8	798.4	**3,784.3**	3,018.3
Equity income (Note 6)	**0.6**	-	**0.6**	-
Operating income	**31.8**	62.0	**141.6**	329.3
Finance expense, net	**(7.6)**	(4.6)	**(24.9)**	(18.2)
Foreign exchange loss on long-term debt	**(5.9)**	-	**(5.9)**	-
Gain (loss) on derivative financial instruments	**2.1**	(7.4)	**(28.1)**	(8.9)
Other income (expense), net	**3.5**	3.1	**27.7**	(4.2)
Net income before income taxes	**23.9**	53.1	**110.4**	298.0
Income tax expense (Note 2)	**(4.3)**	(12.6)	**(18.5)**	(76.2)
Net income	**$ 19.6**	$ 40.5	**$ 91.9**	$ 221.8
Net income attributable to:				
Equity shareholders of the Company	**$ 1.6**	$ 29.9	**$ 24.7**	$ 175.2
Non-controlling interests	**18.0**	10.6	**67.2**	46.6
Net income	**$ 19.6**	$ 40.5	**$ 91.9**	$ 221.8
Net income per common share: (in Canadian dollars)				
Attributable to equity shareholders of the Company				
- Basic and diluted (Note 3)	**$ 0.01**	$ 0.22	**$ 0.18**	$ 1.28

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 December 31, **2015**	3 months ended December 31, 2014	12 months ended December 31, **2015**	12 months ended December 31, 2014
Net income	**$ 19.6**	$ 40.5	**$ 91.9**	$ 221.8
Other comprehensive income (loss)				
Items that will not be recycled through net income:				
Defined benefit plan actuarial gains (losses)	**(2.8)**	(63.2)	**28.4**	(115.7)
Income tax recovery (expense) on defined benefit plan actuarial gains (losses) (Note 2)	**0.8**	16.8	**(7.3)**	30.5
	(2.0)	(46.4)	**21.1**	(85.2)
Items that may be recycled through net income:				
Foreign exchange translation of foreign operations, net of tax	**15.5**	10.9	**72.8**	22.7
Other comprehensive income (loss), net of tax	**13.5**	(35.5)	**93.9**	(62.5)
Total comprehensive income	**$ 33.1**	$ 5.0	**$ 185.8**	$ 159.3
Total comprehensive income attributable to:				
Equity shareholders of the Company	**$ 14.9**	$ 0.5	**$ 115.9**	$ 122.2
Non-controlling interests	**18.2**	4.5	**69.9**	37.1
Total comprehensive income	**$ 33.1**	$ 5.0	**$ 185.8**	$ 159.3

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

Canfor Corporation
Condensed Consolidated Statements of Changes in Equity

(millions of Canadian dollars, unaudited)	3 months ended December 31, **2015**	3 months ended December 31, 2014	12 months ended December 31, **2015**	12 months ended December 31, 2014
Share capital				
Balance at beginning of period	**$ 1,056.0**	$ 1,068.0	**$ 1,068.0**	$ 1,103.7
Share purchases (Note 3)	**(8.3)**	-	**(20.3)**	(35.7)
Balance at end of period	**$ 1,047.7**	$ 1,068.0	**$ 1,047.7**	$ 1,068.0
Contributed surplus and other equity				
Balance at beginning of period	**$ (74.5)**	$ 31.9	**$ 31.9**	$ 31.9
Forward purchase liabilities related to acquisitions	**-**	-	**(106.4)**	-
Balance at end of period	**$ (74.5)**	$ 31.9	**$ (74.5)**	$ 31.9
Retained earnings				
Balance at beginning of period	**$ 272.7**	$ 270.5	**$ 260.1**	$ 234.2
Net income attributable to equity shareholders of the Company	**1.6**	29.9	**24.7**	175.2
Defined benefit plan actuarial gains (losses), net of tax	**(2.2)**	(40.3)	**18.4**	(75.7)
Share purchases (Note 3)	**(11.7)**	-	**(38.9)**	(73.2)
Acquisition of non-controlling interests (Note 3)	**(2.7)**	-	**(6.6)**	(0.4)
Balance at end of period	**$ 257.7**	$ 260.1	**$ 257.7**	$ 260.1
Accumulated foreign exchange translation				
Balance at beginning of period	**$ 84.5**	$ 16.3	**$ 27.2**	$ 4.5
Foreign exchange translation of foreign operations, net of tax	**15.5**	10.9	**72.8**	22.7
Balance at end of period	**$ 100.0**	$ 27.2	**$ 100.0**	$ 27.2
Total equity attributable to equity holders of the Company	**$ 1,330.9**	$ 1,387.2	**$ 1,330.9**	$ 1,387.2
Non-controlling interests				
Balance at beginning of period	**$ 289.8**	$ 246.4	**$ 250.4**	$ 223.1
Net income attributable to non-controlling interests	**18.0**	10.6	**67.2**	46.6
Defined benefit plan actuarial gains (losses) attributable to non-controlling interests, net of taxes	**0.2**	(6.1)	**2.7**	(9.5)
Distributions to non-controlling interests	**(4.0)**	(2.5)	**(56.8)**	(10.2)
Acquisition of non-controlling interests (Note 3)	**(7.0)**	-	**(19.0)**	(1.6)
Non-controlling interests arising on acquisitions	**(0.2)**	2.0	**52.3**	2.0
Balance at end of period	**$ 296.8**	$ 250.4	**$ 296.8**	$ 250.4
Total equity	**$ 1,627.7**	$ 1,637.6	**$ 1,627.7**	$ 1,637.6

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 December 31, **2015**	3 months ended December 31, 2014	12 months ended December 31, **2015**	12 months ended December 31, 2014
Cash generated from (used in):				
Operating activities				
Net income	**$ 19.6**	$ 40.5	**$ 91.9**	$ 221.8
Items not affecting cash:				
Amortization	**59.9**	46.9	**214.0**	182.5
Income tax expense	**4.3**	12.6	**18.5**	76.2
Long-term portion of deferred reforestation obligations	**-**	(11.2)	**(2.0)**	(10.9)
Foreign exchange loss on long-term debt	**5.9**	-	**5.9**	-
Changes in mark-to-market value of derivative financial instruments	**(5.8)**	7.4	**(4.1)**	9.1
Employee future benefits	**5.7**	2.7	**16.8**	12.4
Finance expense, net	**7.6**	4.6	**24.9**	18.2
Mill closure provisions	**-**	-	**19.4**	-
Other, net	**4.3**	4.8	**2.8**	19.4
Defined benefit pension plan contributions, net	**(6.1)**	(3.9)	**(5.9)**	(29.7)
Income taxes paid, net	**(2.1)**	(3.1)	**(61.3)**	(39.5)
	93.3	101.3	**320.9**	459.5
Net change in non-cash working capital (Note 4)	**(58.5)**	11.6	**(66.3)**	(73.6)
	34.8	112.9	**254.6**	385.9
Financing activities				
Change in operating bank loans	**(43.0)**	(77.0)	**90.0**	(7.2)
Proceeds from long-term debt	**263.4**	75.0	**388.4**	75.0
Repayment of long-term debt	**-**	-	**(175.0)**	-
Finance expenses paid	**(3.3)**	(2.7)	**(12.7)**	(11.4)
Share purchases (Note 3)	**(20.0)**	-	**(59.2)**	(108.9)
Acquisition of non-controlling interests (Note 3)	**(9.6)**	-	**(25.3)**	(2.0)
Cash distributions paid to non-controlling interests	**(4.0)**	(2.5)	**(56.8)**	(10.2)
	183.5	(7.2)	**149.4**	(64.7)
Investing activities				
Additions to property, plant and equipment, timber and intangible assets, net	**(83.7)**	(54.7)	**(240.0)**	(234.3)
Acquisitions (Note 6)	**(123.9)**	-	**(263.4)**	(9.9)
Timber investment loan	**-**	-	**(30.0)**	-
Proceeds received on sale of Lakeland Winton	**-**	-	**15.0**	-
Change in restricted cash	**-**	(50.2)	**50.2**	(50.2)
Proceeds received on sale of Daaquam Sawmill	**-**	-	**-**	23.6
Other, net	**(3.1)**	7.3	**(9.8)**	11.9
	(210.7)	(97.6)	**(478.0)**	(258.9)
Foreign exchange gain on cash and cash equivalents	**3.2**	3.8	**13.2**	6.5
Increase (decrease) in cash and cash equivalents*	**10.8**	11.9	**(60.8)**	68.8
Cash and cash equivalents at beginning of period*	**86.7**	146.4	**158.3**	89.5
Cash and cash equivalents at end of period*	**$ 97.5**	$ 158.3	**$ 97.5**	$ 158.3

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

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

Canfor Corporation
Notes to the Condensed Consolidated Financial Statements
Three months and years ended December 31, 2015 and 2014
(unaudited, millions of Canadian dollars unless otherwise noted)

1. Basis of Preparation

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

These financial statements do not include all of the disclosures required by International Financial Reporting Standards ("IFRS") for annual financial statements. Additional disclosures relevant to the understanding of these financial statements, including the accounting policies applied, can be found in the Company's Annual Report for the year ended December 31, 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 affects demand for solid wood products, are generally stronger in the spring and summer months. Shipment volumes are affected by these factors as well as by global supply and demand conditions.

These financial statements were authorized for issue by the Company's Board of Directors on February 17, 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. Income Taxes

	3 months ended December 31,		12 months ended December 31,	
(millions of Canadian dollars, unaudited)	**2015**	2014	**2015**	2014
Current	**$ (6.4)**	$ (12.0)	**$ (32.6)**	$ (50.4)
Deferred	**2.1**	(0.6)	**14.1**	(25.8)
Income tax expense	**$ (4.3)**	$ (12.6)	**$ (18.5)**	$ (76.2)

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

	3 months ended December 31,		12 months ended December 31,	
(millions of Canadian dollars, unaudited)	**2015**	2014	**2015**	2014
Income tax expense at statutory rate 2015 - 26.0% (2014 - 26.0%)	**$ (6.2)**	$ (13.8)	**$ (28.7)**	$ (77.5)
Add (deduct):				
Entities with different income tax rates and other tax adjustments	**1.8**	1.2	**6.6**	0.8
Non-taxable income related to non-controlling interests	**0.9**	0.1	**3.9**	0.6
Permanent difference from capital gains and losses and other non-deductible items	**(0.8)**	(0.1)	**(0.3)**	(0.1)
Income tax expense	**$ (4.3)**	$ (12.6)	**$ (18.5)**	$ (76.2)

In addition to the amounts recorded to net income, a tax recovery of $0.8 million was recorded to other comprehensive income for the three month period ended December 31, 2015 (three months ended December 31, 2014 - tax recovery of $16.8 million) in relation to the actuarial losses on defined benefit employee compensation plans. For the twelve months ended December 31, 2015, the tax expense was $7.3 million (twelve months ended December 31, 2014 - tax recovery of $30.5 million).

Also included in other comprehensive income for the three months ended December 31, 2015 was a tax expense of $1.4 million related to foreign exchange differences on translation of investments in foreign operations (three months ended December 31, 2014 - tax expense of $0.8 million). For the twelve months ended December 31, 2015, the tax expense was $6.0 million (twelve months ended December 31, 2014 - tax expense of $2.4 million).

3. Earnings Per Share and Normal Course Issuer Bid

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

	3 months ended December 31,		12 months ended December 31,	
	2015	2014	**2015**	2014
Weighted average number of common shares	**133,309,012**	135,376,993	**134,068,255**	137,293,281

On March 5, 2015, the Company renewed its normal course issuer bid whereby it can purchase for cancellation up to 6,767,993 common shares or approximately 5% of its issued and outstanding common shares as of February 28, 2015. The renewed normal course issuer bid is set to expire on March 4, 2016. During the fourth quarter of 2015, Canfor purchased 1,050,120 common shares for $20.0 million (an average of $19.05 per common share). Under a separate normal course issuer bid, CPPI purchased common shares from non-controlling shareholders during 2015 increasing Canfor's ownership from 50.5% at December 31, 2014 to 51.9% at December 31, 2015. As at December 31, 2015 and February 17, 2016, there were 132,804,543 common shares of the Company outstanding.

4. Net Change in Non-Cash Working Capital

	3 months ended December 31,		12 months ended December 31,	
(millions of Canadian dollars, unaudited)	**2015**	2014	**2015**	2014
Accounts receivable	**$ (51.0)**	$ 24.6	**$ (76.7)**	$ 24.2
Inventories	**(23.1)**	(10.3)	**(22.9)**	(64.0)
Prepaid expenses and other assets	**30.5**	9.6	**10.6**	(15.8)
Accounts payable, accrued liabilities and current portion of deferred reforestation obligations	**(14.9)**	(12.3)	**22.7**	(18.0)
Net decrease (increase) in non-cash working capital	**$ (58.5)**	$ 11.6	**$ (66.3)**	$ (73.6)

5. 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 December 31, 2015							
Sales to external customers	**$**	**721.8**	**331.2**	**-**	**-**	**$**	**1,053.0**
Sales to other segments	**$**	**46.8**	**-**	**-**	**(46.8)**	**$**	**-**
Operating income (loss)	**$**	**3.7**	**38.6**	**(10.5)**	**-**	**$**	**31.8**
Amortization	**$**	**41.1**	**17.6**	**1.2**	**-**	**$**	**59.9**
Capital expenditures[1]	**$**	**53.7**	**27.6**	**2.4**	**-**	**$**	**83.7**
3 months ended December 31, 2014							
Sales to external customers	$	564.4	296.0	-	-	$	860.4
Sales to other segments	$	41.7	-	-	(41.7)	$	-
Operating income (loss)	$	40.6	29.4	(8.0)	-	$	62.0
Amortization	$	30.0	15.6	1.3	-	$	46.9
Capital expenditures[1]	$	41.6	11.5	1.6	-	$	54.7
12 months 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[1]	**$**	**161.7**	**68.3**	**10.0**	**-**	**$**	**240.0**
Identifiable assets	**$**	**2,259.9**	**823.9**	**210.8**	**-**	**$**	**3,294.6**
12 months 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[1]	$	166.6	58.0	9.7	-	$	234.3
Identifiable assets	$	1,856.7	768.1	222.0	-	$	2,846.8

[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 year ended December 31, 2015 exclude the assets purchased as part of the acquisitions of Scotch & Gulf Lumber, LLC, Beadles Lumber Company & Balfour Lumber Company Inc., Southern Lumber Company Inc. and Anthony Forest Products Company.

6. Purchase of Anthony Forest Products Company

On October 30, 2015, the Company completed the acquisition of Anthony for $126.8 million, including working capital. As a result of the acquisition, Canfor recognized $19.5 million of working capital and $69.8 million of identifiable long-term assets acquired net of liabilities assumed. The acquisition has been accounted for in accordance with IFRS 3, *Business Combinations*.

The acquisition included a sawmill located in Urbana, Arkansas, laminating facilities in El Dorado, Arkansas and Washington, Georgia and chip mills in Louisiana and Texas. A 50% interest in Anthony EACOM Inc., a joint venture with EACOM Timber Corporation, was also acquired as part of the acquisition. Anthony EACOM Inc. manufactures I-joists in in Sault Ste. Marie, Ontario.

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

(millions of Canadian dollars, unaudited)		
Total consideration		
Cash consideration paid	$	**126.8**
Total consideration	$	**126.8**

(millions of Canadian dollars, unaudited)		
Cash	$	**2.9**
Land		**0.9**
Buildings, equipment and mobile		**52.3**
Equity investment (Anthony EACOM Inc.)		**16.6**
Non-cash working capital, net		**16.6**
Total net identifiable assets	$	**89.3**
Goodwill		**37.5**
Total consideration	$	**126.8**

The Company incurred acquisition-related costs of $1.8 million, principally relating to external legal fees and due diligence costs, which have been included in selling and administration costs. Anthony's results are recorded in the lumber segment.

The goodwill of $37.5 million recognized as part of the purchase is calculated as the excess of the aggregate consideration over the fair value of the identifiable assets acquired and liabilities assumed. The goodwill arising from the acquisition is attributable to premium products produced, expected future income and cash-flow projections, the ability to diversify Canfor's product offering and synergies between Anthony and the Company's other US operations. Goodwill calculated for tax purposes is expected to be tax deductible over 15 years.

7. 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.