

2015

CANFOR CORPORATION
MANAGEMENT'S
DISCUSSION & ANALYSIS



2015 MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") provides a review of Canfor Corporation's ("Canfor" or "the Company") financial performance for the year ended December 31, 2015 relative to the year ended December 31, 2014, and the financial position of the Company at December 31, 2015. It should be read in conjunction with Canfor's Annual Information Form and its audited consolidated financial statements and accompanying notes for the years ended December 31, 2015 and 2014. The financial information contained in this 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 reconciliation included in the section "Overview of Consolidated Results – 2015 Compared to 2014") 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.

Factors that could impact future operations are also discussed. These factors may be influenced by 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 February 17, 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.

COMPANY OVERVIEW

Canfor is a leading Canadian integrated forest products company based in Vancouver, British Columbia ("BC"), involved primarily in the lumber business, with production facilities in BC, Alberta, and the United States ("US"). Canfor also has a 51.9% interest in Canfor Pulp Products Inc. ("CPPI") which is involved in the Pulp and Paper business with production facilities located in BC.

Significant changes to the Company's business in 2015 include the following:

Lumber

- On January 2, 2015, Canfor completed the first phase of the purchase of Beadles Lumber Company and Balfour Lumber Company Inc. ("Beadles & Balfour") located in Georgia, representing an initial 55% ownership interest. The aggregate purchase price for Beadles & Balfour is US\$68.0 million, excluding working capital. Beadles and Balfour operate two sawmills in an area with high quality sustainable fibre supply, with one sawmill focused primarily on one-inch lumber products and the other sawmill producing structural lumber, with combined annual production capacity of 210 million board feet following capital upgrades and additional shifting. The second phase of the acquisition whereby Canfor will own 100% of Beadles & Balfour is scheduled to close at the beginning of 2017.
- On January 30, 2015, the Company completed the third phase of the purchase of the lumber business of Scotch & Gulf Lumber, LLC ("Scotch Gulf") located in Mobile, Alabama increasing its ownership from 33% to 50%. The final phase, whereby the Company will own 100% of Scotch Gulf, is scheduled to close in July 2016. The lumber business of Scotch Gulf comprises three sawmills located within an area of high-quality fibre supply, with a strong focus on value-added lumber and a combined annual capacity of 440 million board feet following capital upgrades and additional shifting. The aggregate purchase price for Scotch Gulf is US\$80.0 million, excluding working capital.
- On April 1, 2015, Canfor acquired 100% of Southern Lumber Company Inc., ("Southern Lumber") located in Mississippi for a purchase price, excluding working capital, of US\$48.7 million. Southern Lumber is a large log southern yellow pine dimension mill manufacturing predominately long, wide width lumber. This sawmill is in an area of exceptionally high quality fibre and is well suited for a higher value product line. After reflecting near term capital investments, the operation is expected to have a capacity of 90 million board feet.
- On July 1, 2015, Canfor sold its 33.3% interest in Lakeland Mills Ltd. and Winton Global Lumber Ltd, located in BC, for cash consideration of \$30.0 million.
- On October 30, 2015, Canfor acquired 100% of Anthony Forest Products Company, ("Anthony" or "Anthony Forest Products") for purchase consideration of US\$78.5 million, excluding working capital. Anthony operates six facilities producing lumber, engineered wood and wood chips with a combined annual capacity of 250 million feet equivalent. Anthony owns a sawmill located in Arkansas with annual operating capacity of 150 million board feet, producing premium southern pine lumber. It also owns laminating facilities in Arkansas and Georgia which produce beams, columns and other glulam products with an annual combined capacity of 75 million board feet, operates two chip plants in Louisiana and Texas, and has a 50% joint venture interest in an I-joist plant with annual capacity of 54 million lineal feet, located in Sault Ste. Marie, Ontario.

Pulp

- On January 30, 2015, the Company completed the sale of its Bleached Chemi-Thermo Mechanical Pulp ("BCTMP") mill ("Taylor pulp mill"), which has production capacity of 220,000 tonnes, to CPPI for cash proceeds of \$12.6 million.
- During 2015, Canfor's ownership of CPPI increased to 51.9% as a result of share purchases from non-controlling shareholders under CPPI's Normal Course Issuer Bid. Further discussion of the Normal Course Issuer Bid is provided in the "Liquidity and Financial Requirements" section of this document.

Green Energy

- CPPI completed a further turbo-generator upgrade at its Intercon pulp mill in the first quarter of 2015, and started selling power in April 2015.

- The Company is in the process of completing the construction of two pellet plants located at the Chetwynd and Fort St. John sawmill sites, in the Northern British Columbia interior (the “pellet plants”) in partnership with Pacific BioEnergy Corporation (“Pacific BioEnergy”). Canfor owns an approximate 95% interest in the pellet plants while Pacific BioEnergy owns the remaining 5% and has an option to increase its ownership interest in the pellet plants up to a total of 25% by January 1, 2018. The Chetwynd pellet plant commenced operations in the fourth quarter of 2015 and the Fort St. John pellet plant is anticipated to begin production in early 2016.

On January 21, 2016, the Company announced that it has agreed to purchase the assets of Wynndel Box and Lumber Ltd., (“Wynndel”) located in the Creston Valley of BC. The agreement is expected to close in the second quarter of 2016 and is subject to customary closing conditions.

In the previous year, the Company exited its Eastern Canadian Spruce/Pine/Fir (“SPF”) business with the sale of its Daaquam Sawmill for total proceeds of \$25.0 million. The Daaquam sawmill produced approximately 120 million board feet of lumber annually.

As of December 31, 2015, Canfor employed 6,047 people, of which 1,278 are employed by CPPI.

Lumber

Canfor’s lumber operations have a current annual production capacity of approximately 5.8 billion board feet of lumber, including 100% of the capacity of the Scotch Gulf and Beadles & Balfour sawmills reflecting near-term capital investments and additional operating shifts. The majority of lumber produced by Canfor from its facilities is construction and specialty grade dimension lumber that ranges in size from one by three inches to two by twelve inches and in lengths from six to twenty-six feet. A significant and increasing proportion of Canfor’s lumber production is comprised of specialty products that command premium prices, including Square Edge lumber for the North American market, J-grade lumber for the Japanese market, and machine stress rated (“MSR”) lumber used in engineered applications such as roof trusses and floor joists. As a result of its recent acquisitions in the US South, Canfor has expanded its product offering to include high-value engineered wood products, higher-grade MSR lumber, as well as premium one-inch boards.

Canfor’s lumber operations also include one finger-joint plant, two lumber treating plants, two glulam plants, three whole-log chipping plants and a trucking division. As outlined above, the Company, in partnership with Pacific BioEnergy, operates a pellet plant at the Chetwynd Sawmill site, with an additional pellet plant at the Fort St. John sawmill site scheduled for completion in early 2016. The lumber business segment also includes a 60% interest in the Houston Pellet Limited Partnership, which has an annual capacity of approximately 217,000 tonnes of wood pellets and a 50% interest in Anthony EACOM Inc., an I-joist producer located in Sault Ste. Marie, Ontario with annual capacity of approximately 54 million lineal feet. Subsequent to the 2015 year end, Canfor announced it has agreed to purchase Wynndel. Wynndel has access to exceptionally high-quality fibre and produces premium boards and customized specialty wood products, and has a current annual production capacity of 65 million board feet.

Canfor holds approximately 11 million cubic metres of annual harvesting rights for its solid wood operations under various forest tenures located in the interior region of BC and northern Alberta, and harvests logs from those tenures to supply its interior lumber operations. Any shortfalls in mill requirements are made up with wood purchased from other tenure holders in those areas. The wood fibre requirements in the US are met through open market purchases from private timberland owners.

Canfor markets lumber products throughout North America and overseas, through its sales offices in Vancouver, Canada, Myrtle Beach, U.S., Mobile, U.S., Tokyo, Japan, Seoul, South Korea and Shanghai, China. In addition to its own production, Canfor also markets lumber produced externally to complement its product line. While a significant proportion of Canfor’s product is sold to markets in the United States, the proportion of shipments to offshore markets, particularly China, has risen significantly in recent years. The Company ships substantially all lumber destined for North America by truck and rail, while the vast majority of product sold offshore is transported by container ship.

Pulp and Paper

Canfor's Pulp and Paper segment is comprised of three northern softwood market kraft pulp mills and the Taylor pulp mill, all of which are owned and operated by CPPI in BC. CPPI produces Northern Bleached Softwood Kraft ("NBSK") pulp, BCTMP, and specialty paper. NBSK pulp is primarily a bleached product, although unbleached and semi-bleached grades are also produced at the Prince George pulp and paper mill.

The CPPI mills have the annual capacity to produce over one million tonnes of northern softwood market kraft pulp and approximately 220,000 tonnes of BCTMP. CPPI's paper machine, located at the Prince George pulp and paper mill, has an annual production capacity, at optimum product mix levels, of 140,000 tonnes of kraft paper.

Canfor supplies CPPI with residual wood chips and hog fuel (principally bark) produced at certain of its specified sawmills. Prices paid by CPPI for residual wood chips are based on a pricing formula to reflect market prices and conditions, with hog fuel purchased by CPPI at market prices. CPPI also has fibre supply agreements with third parties to supplement its supply of wood chips and hog fuel.

All pulp produced by CPPI is sold by CPPI's sales offices in Vancouver, Canada, Tokyo, Japan, and Seoul, South Korea, to customers, primarily in North America, Europe and Asia. The significant majority of product sold to North America is shipped by rail, while product sold overseas is transported by container or breakbulk vessels.

Other Operations

Canfor also owns an OSB plant ("PolarBoard"), which is currently indefinitely idled, and a plywood plant ("Tackama"), which was permanently closed in December 2011.

Business Strategy

Canfor's overall business strategy is to be a lumber industry leader with top-quartile margin performance, accomplished through:

- Expanding geographical markets, increasing market share of value-added products and building strong long-term partnerships with valued customers,
- Optimizing the extraction of high-margin products and value from its available fibre sources,
- Attaining world class supply chain performance,
- Achieving and maintaining a low cost structure,
- Maintaining a strong financial position,
- Developing an enterprise-wide culture of safety, innovation and engagement where Canfor is recognized as the preferred employer in its operating regions,
- Capitalizing on attractive growth opportunities, and
- Positioning the Company as a leading supplier of green, environmentally friendly building products.

Canfor is focused on being the preferred supplier of lumber to the building industry around the world, with a particular focus on North America and Asia. The Company is committed to being a major supplier to the retail segment of lumber consumption and expanding its presence in key offshore markets, including China and Japan. This objective includes making higher value structural lumber and specialized products to cater to specific customer requirements.

CPPI's overall business strategy is to be a pulp and paper industry leader with strong financial performance accomplished through:

- Preserving its low-cost operating position,
- Maintaining the premium quality of its products,
- Growing its green energy business,
- Developing an enterprise-wide culture of safety, innovation and engagement where CPPI is recognized as the preferred employer in its operating regions, and
- Capitalizing on attractive growth opportunities.

OVERVIEW OF 2015

North American lumber demand was relatively balanced in 2015, as the US housing market continued its slow but gradual recovery supported by low mortgage rates, rising home prices and low inventories of new and existing homes for sale. This improving demand and consumption, however, was somewhat outweighed by increased supply to the North American market. This reflected both increased production, notably from Eastern Canada and the US South, and lumber redirected to the US market from China in response to slowing construction activity and increased supply from Russia to China during the year. As a result, average US dollar benchmark lumber prices came under pressure through the year, with low grade products in particular seeing steep declines in the second half of 2015 reflecting the slowdown in the Chinese construction sector. Lumber demand in other offshore markets, such as Japan and Korea, was stable through 2015.

Reflecting the aforementioned factors, the North American benchmark Western SPF 2x4 #2 & Better grade ("WSPF") lumber price was down US\$71 per Mfbm, or 20%, compared to 2014, with Canadian producers paying higher export taxes on US-bound lumber shipments through most of 2015 as a result. These impacts were offset in part by a 12 cent, or 14%, weakening of the Canadian dollar relative to its US counterpart in 2015. Eastern Southern Yellow Pine ("ESYP") 2x4 #2 lumber prices moved moderately lower on a US dollar basis over the same period, with more pronounced decreases seen for most-wider dimension SYP products. Prices for Canfor's value added and specialty lumber products benefited from more stable pricing through 2015.

In 2015, the Company continued to build on its solid reputation as a producer and seller of high-margin lumber products to global markets, retaining its top-quartile margin performance in both Western Canada and the US South. The Company continued to position itself to take advantage of the improving lumber markets as evidenced by the acquisitions of Scotch Gulf in Alabama, Beadles & Balfour in Georgia, Southern Lumber in Mississippi and Anthony Forest Products in Arkansas. Combined, these additional sawmills have expanded Canfor's US South lumber capacity by approximately 890 million board feet, after near-term capital investments and additional shifting. As highlighted earlier, these acquisitions also expand the Company's overall product offering, provide access to new markets and increase exposure to higher-margin value-added products.

In November 2015, due to a lack of economically available fibre supply combined with challenging market conditions in the oil and gas market that it serves, the Company permanently closed its Canal Flats sawmill. This followed the Company's permanent closure of its Quesnel sawmill in March 2014. Also in March 2014, Canfor's exited the Eastern SPF lumber business following the sale of its Daaquam sawmill. Excluding the impact from the Canal Flats, Quesnel and Daaquam sawmills, as well as the recent acquisitions in the US South, the Company saw a solid improvement in productivity during 2015, reflecting the positive impact of capital upgrades and improved operational performance. Lumber production was up 8% compared to 2014 for the most part reflecting the improved productivity, and to a lesser extent, additional operating days in 2015.

The Company's British Columbia lumber operations continued to experience log cost pressures in 2015, principally related to the mountain pine beetle ("MPB") epidemic, with higher logging and hauling rates, purchased wood costs as well as increased road maintenance and construction cost impacts. Compared to the previous year, log costs showed a more modest increase in 2015, which primarily reflected the decline in Western SPF lumber sales realizations and lower diesel prices. The log cost trend in British Columbia contrasted with Canfor's operations in the US South region which, through 2015, continued to benefit from significant volumes of high-quality fibre in close proximity to its sawmills and more muted pressure on log costs.

Overall operating results for the lumber segment were lower in 2015 compared to 2014, principally reflecting the lower Canadian-dollar unit sales realizations, higher unit log costs and the one-time costs associated with the Canal Flats sawmill closure, all of which more than offset improvements in productivity and the positive contribution from the sawmills acquired in the US South in 2015.

For pulp, the significant weakening of the Canadian dollar through 2015 more than offset the impact of increased hardwood pulp supply which added downward pressure to softwood pulp prices during the year. NBSK pulp list prices to North America started the year above US\$1,000 per tonne and trended lower through 2015 to finish the year at US\$940 per tonne. Pulp list prices to China and Europe saw more pronounced declines, down 12% and 8% in 2015, respectively. Global pulp demand was relatively stable in 2015 while global inventory levels were on the high end of

the balanced range through most of the year. The lower NBSK pulp prices were more than offset by the weaker Canadian dollar, enabling CPPI to deliver higher year-over-year unit sales realizations.

Operational excellence remained a top priority for CPPI in 2015, with the Company seeing solid productivity progress with increased operating rates at all its NBSK pulp mills, reflecting improved equipment reliability compared to the prior year. Following several capital upgrades over the last few years, operational performance stabilized and fewer operational disruptions were experienced as the mills optimized new equipment and processes. In 2016, Management remains focused on operational excellence and is targeting further operating rate improvements.

CPPI's green energy business continued to grow in 2015 with the turbines at all three NBSK pulp mills now operating and selling power. The last of these at the Intercontinental pulp mill was completed in early 2015 and started selling power in April 2015. Total energy revenues were up approximately 25% from 2014 and further growth is forecast for 2016 as all three turbines operate for a full year.

The Company's paper business also performed well in 2015 following its strong operating performance in the prior year. The weakening of the Canadian dollar in 2015 more than offset somewhat weaker kraft paper US dollar denominated prices during the year resulting in higher kraft paper sales realizations compared to 2014.

Total consolidated operating income was \$141.6 million, down \$187.7 million from operating income of \$329.3 million in 2014, as improved results in the pulp and paper segment were offset by the lower operating earnings in the lumber segment. The Company recorded a consolidated return on invested capital of 2.3%, down 11.0% from 2014, reflecting the challenges faced by the lumber segment in 2015.

The Company was active on the refinancing front in 2015, both extending its operating lines to 2020 and completing US\$200.0 million of strategic financings, while reducing its Canadian-dollar denominated term debt by \$50.0 million during the year (see "Liquidity and Financial Requirements" for more details).

The Company made cash distributions of \$56.8 million to non-controlling shareholders in 2015, up from \$10.2 million in the previous year; these included a special dividend of \$1.125 per common share paid by CPPI in addition to its quarterly dividend of \$0.0625 per common share. The Company and CPPI were also active in repurchasing shares through 2015, purchasing approximately 2.6 million (approximately 1.9% of outstanding shares) and 1.9 million common shares (approximately 2.7% of outstanding shares), respectively, under separate Normal Course Issuer Bids. In the case of CPPI, this resulted in Canfor increasing its ownership of CPPI from 50.5% at December 31, 2014 to 51.9% at December 31, 2015.

The Company maintained its strong balance sheet focus during 2015, applying a disciplined approach to both cash allocation for internal and external capital and growth opportunities, and working capital management. The Company ended the year with consolidated net debt of \$516.7 million and a net debt to capitalization ratio of 24.1%.

A review of the more significant developments in 2015 follows.

Markets and Pricing

(i) Solid Wood – Slow-paced North American housing recovery continues; Oversupply resulting in lower US-dollar lumber prices and export taxes partly offset by weaker Canadian dollar

The US housing market continued its gradual recovery in 2015 with higher housing starts and increased repair and remodelling spending as well as historically-low home inventory levels which benefitted from slowly improving employment growth, housing affordability and consumer confidence. The Canadian housing market recorded another solid year in 2015, while offshore demand was mixed in 2015. A slowdown in construction activity in China resulted in lower demand, particularly for low grade products, but demand for higher-value dimension lumber products remained robust in key Asia markets.

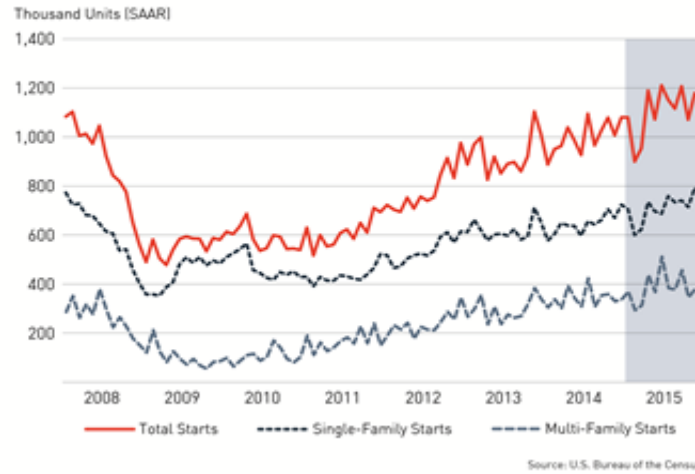
The effects of a slowing Chinese economy, along with higher exports from Russia into China, together with increased lumber production in various regions of North America, saw proportionately higher lumber volumes being directed to the US market in 2015. This increased supply created downward pressures on US dollar benchmark prices for both Western SPF and SYP products for most of the year.

Total US housing starts were up 11% in 2015 compared to 2014, averaging 1,107,000 starts¹ for the year compared to 1,001,000 in 2014, and reaching the highest levels since 2008 (Chart 1). Both single-family unit and multi-family

unit starts were up in 2015, with the increase in multi-family starts (up 12%) slightly outpacing the increase in single-family starts (up 10%) year-over-year. The increase in multifamily unit starts reflected growth in rental markets due to tighter lending regulations subsequent to the US housing downturn, and limited available land in major centres.

Chart 1

U.S. HOUSING STARTS



¹ Source: US Bureau of the Census

New home inventory levels show a modest upward trend through 2015, while existing home inventory levels decreased towards the end of the year as highlighted in Chart 2 below.

Chart 2

NEW AND EXISTING HOME INVENTORIES IN U.S.



The Canadian housing market remained strong through 2015, with housing starts at 194,000 units² in 2015 in line with 2014 (Chart 3), for the most part reflecting a stable housing market in most regions through the year. The recent decline in oil and other commodity prices, on which the Canadian economy is highly dependent, is anticipated to result in some slowing of the housing market in several regions, notably Alberta, in 2016.

Chart 3

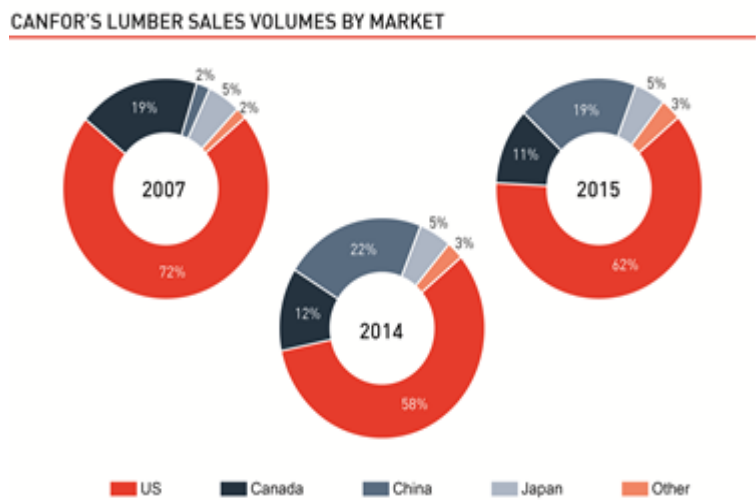


² Canada Mortgage and Housing Corporation ("CMHC")

Canfor's lumber shipments to offshore markets showed a modest increase in 2015, with increased shipments to Japan and similar volumes to China compared to 2014 reflecting the Company's strong focus on higher-value lumber products and markets.

The change in the Company's geographical sales mix over the past eight years is highlighted in Chart 4, which shows the continued shift to a more globally balanced distribution of sales in support of strategic growth objectives. The Company's recent growth in the US South has significantly increased Canfor's exposure to the US market while Western SPF lumber sales are projected to remain geographically diversified.

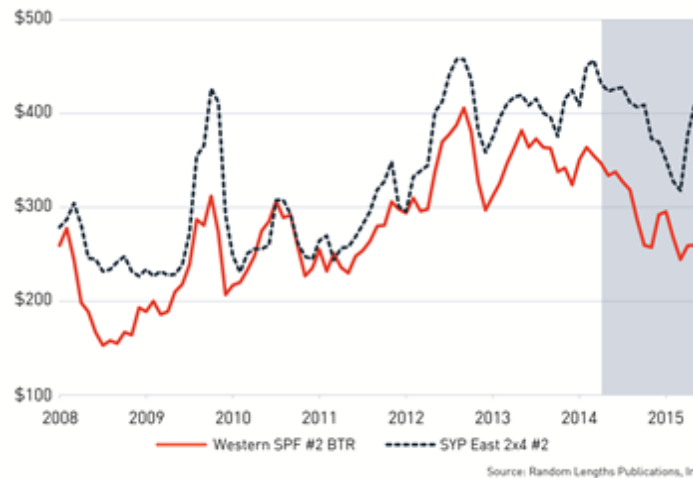
Chart 4



The benchmark Western SPF 2x4 #2&Btr price was lower in 2015, averaging US\$278 per thousand board feet ("Mfbm")³, down US\$71 (or 20%) compared to US\$349 per Mfbm in the prior year. Less pronounced price decreases were seen for most other dimensions. The benchmark Eastern SYP 2x4 #2 lumber price in 2015 averaged US\$382 per Mfbm, down US\$36 (or 9%) from US\$418 per Mfbm in 2014, with more pronounced decreases in most-wider dimension SYP products. Prices for Western SPF products trended down during 2015 as the combination of weaker demand in China and oversupply in North America in the fall pushed lumber prices to levels not seen since early 2012, before recovering somewhat towards the end of the year (see Chart 5).

Chart 5

U.S. WESTERN SPF 2x4 #2&BTR and SYP EAST #2 LUMBER PRICE COMPARISON



³ Random Lengths Publications, Inc.

⁴ Bank of Canada

The Canadian dollar continued to weaken against the US dollar in 2015, particularly towards the end of the year, as the US economy gained momentum, in contrast to the Canadian economy which was adversely impacted by sharp declines in many commodity prices. The weakening of the Canadian dollar accelerated towards the end of 2015 and continued into the beginning of 2016. On average the Canadian dollar was at \$0.783⁴ per US dollar, 12 cents, or 14%, lower than in 2014, somewhat mitigating the decline in Western SPF benchmark lumber prices.

(ii) Pulp – Incremental hardwood capacity translates into downward pressure on pricing in 2015 but impact more than offset by favourable currency movements

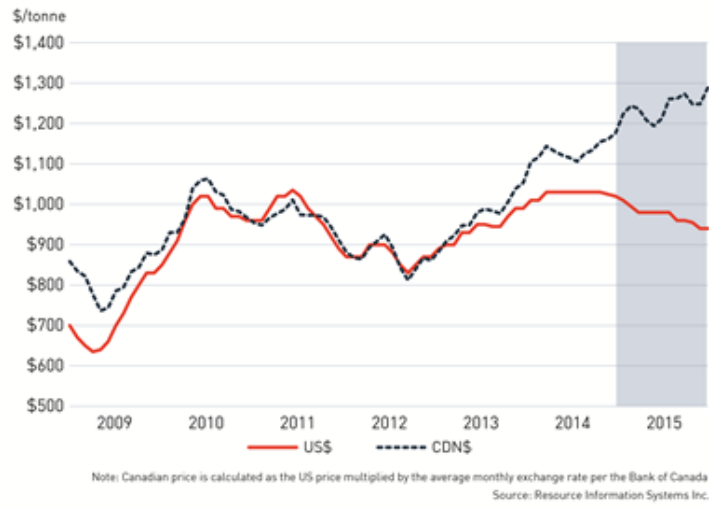
Global softwood pulp markets saw downward pressure through 2015 in all regions. While overall global pulp demand was steady, additional hardwood pulp capacity, principally from South America, was absorbed into global markets, particularly China, during the year. Global softwood producer inventories increased in the first quarter of 2015 as producers ran well with limited maintenance downtime, before reversing in the second quarter as many producers took their seasonal maintenance outages. In the second half of 2015, global softwood producer inventory levels remained at the high end of the balanced range.

The benchmark North American NBSK pulp list price averaged US\$972 per tonne⁵ in 2015, a decrease of US\$53 per tonne, or 5%, from the prior year. List prices to Europe and China were also under pressure in 2015 down US\$78 and US\$89 per tonne, respectively. As outlined above, more than offsetting the lower pricing was a 14% weaker Canadian dollar resulting in overall improved sales realizations in Canadian dollar terms.

The following charts show the NBSK pulp list price movements in 2015 before taking account of customer discounts and rebates (Chart 6) and the global pulp inventory levels (Chart 7).

Chart 6

NBSK PULP LIST PRICE DELIVERED TO U.S. - IN US AND CANADIAN DOLLARS



⁵ Resource Information Systems, Inc.

Chart 7

WORLD SOFTWOOD PULP INVENTORIES



Since the beginning of 2014, CPPI's sales network has represented and co-marketed UPM-Kymmene ("UPM") pulp products in North America and Japan, while UPM's pulp sales network represent and co-market CPPI's products in Europe and China, as part of a strategic sales and marketing cooperation agreement with UPM. This arrangement has been working very well for both parties, allowing both CPPI and UPM to sell a broader offering of pulp products and offering enhanced technical service to customers.

Solid Wood Operations

(i) Continued US South expansion and strategic capital spending enhancing operational performance

The Company's confidence in the longer-term prospects of the lumber industry has driven an investment strategy aimed at positioning itself as a top-quartile margin performer in the industry during the lumber market recovery. In support of this objective, the Company has completed several targeted strategic capital initiatives at its sawmills in the last five years, all aimed at enhancing the quality and value offering of products to its customers from a top-tier productivity and cost position. These strategic capital investments are designed to capitalize on the Company's strong fibre position in the BC Interior and the US South. In 2015, the Company completed several major upgrades, most notably at its Polar sawmill, and productivity showed a solid improvement in 2015 compared to the previous year.

In addition to its strategic capital initiatives, the Company has significantly expanded its presence in the US South, as highlighted by its acquisitions of Scotch Gulf, Beadles & Balfour, Southern Lumber and Anthony Forest Products. Scotch Gulf includes three sawmills and a treating plant all of which are located in Alabama and produce primarily structural grade lumber. Beadles & Balfour includes two sawmills located in Georgia with one sawmill focused primarily on 1 inch lumber products and the other sawmill producing structural grade lumber. Southern Lumber owns a single sawmill in Mississippi that produces high-margin lumber in lengths up to 26 feet. Anthony Forest Products operates six facilities including a sawmill and laminating plant in Arkansas, a laminating plant in Georgia, two chip plants and an I-joist plant through a joint venture in Sault Ste. Marie, Ontario. All of these US South sawmills are favourably located in areas of high-quality fibre supply and, with near-term capital investments and shifting additions, will contribute approximately 890 million board feet of production capacity, taking Canfor's Southern Pine capacity to just over 1.5 billion board feet, or 27% of total lumber capacity. The Company's current US South lumber capacity represents an approximate three-fold increase since 2010.

Excluding acquisitions, capital spending in the lumber segment for 2015 totaled \$161.7 million and included construction of the pellet plants in Chetwynd and Fort St. John, completion of capital projects at the Company's Polar, Mackenzie, Grande Prairie, Houston and Jackson operations, and the acquisition of a forest license in the Kootenay region of Western Canada. In 2014, Canfor implemented a new sales, transportation, supply chain and inventory management Enterprise Resource Planning ("ERP") software system across its entire Canadian operations, and in 2015, implemented its new US South ERP platform at its Southern Pine operations in the Carolinas.

(ii) Strong focus on value added products and operational excellence in the face of log cost pressure in British Columbia

In order to achieve top-quartile margin performance, and maximize profitability, the Company continues to focus on the key areas of maximizing product quality and value, tightly controlling unit manufacturing costs and maximizing residual fibre revenues.

a. Product quality / value

Product quality and value are key parts of the Company's focus, with a view to ensuring that valued customers are provided with high quality products and service. Numerous initiatives have been undertaken to ensure continuous improvements in this area, including acquisitions of high-value operations across the US South, capital projects, which are resulting in a higher proportion of higher-value lumber products, and transitioning to harvesting non-Mountain Pine Beetle fibre for use in the BC Interior sawmills.

The Company also has in place, or takes part in, various initiatives designed to promote the benefits of the use of lumber products by developers and end users. This includes initiatives to promote the environmental benefits of using lumber, and also North American industry-wide programs, such as the Softwood Lumber Board, to promote wood as a building product.

b. Unit manufacturing costs

The Company remains focused on ensuring strong operational performance at all of its operations, with continuous improvement initiatives complementing and maximizing the benefits from capital upgrades. Compared to the prior year and excluding the impacts of the recently acquired US South operations, year-over-year unit conversion costs decreased as capital-related productivity improvements, energy consumption decreases at certain operations, and a

reduction in contractor services outweighed slightly higher labour costs, principally reflecting USW (United Steelworkers) rate increases and increased trades labour costs.

Increased upward pressures on non-quota timber and a continued shift out of the Mountain Pine Beetle dominated log profile over the past several years has resulted in increases to logging, hauling and purchased wood costs in BC operations. Added costs for road building and block development in 2015 have also resulted from this fibre profile shift. The Company's US operations' log costs increased marginally from the prior year, principally reflecting high-quality logs processed at the newly acquired high value operations in the US South.

c. Residual fibre revenue

Residual fibre revenue for the Company relates principally to the sale of sawmill residual chips to be used in the manufacture of pulp products. Prices for sawmill residual chips are typically based on a pricing formula with a number of inputs, predominantly driven by market prices for pulp products. Increased residual fibre revenue for 2015 reflected the recent acquisitions in the US South, and higher pulp sales realizations.

In addition, the Company continued to focus on extracting maximum value from its other residual fibre sources in 2015, generating relatively stable revenues from the sale of sawdust, shavings and bark. As previously mentioned, the Company is in the process of completing two pellet plants in the northern BC Interior. These pellet plants will be operated in partnership with Pacific BioEnergy, an established pellet plant operator in BC, and will enhance the utilization of Canfor's sawmill residual fibre in northern BC, providing stable long-term cash flow and contributing to the Company's sustainable value proposition.

In addition, as part of its strategic capital investment focus, the Company now has modern energy systems at the significant majority of its sawmills that make use of other residual fibre products, such as bark hog, which have resulted in reduced energy costs and dependence on fossil fuels.

(iii) Softwood Lumber Agreement

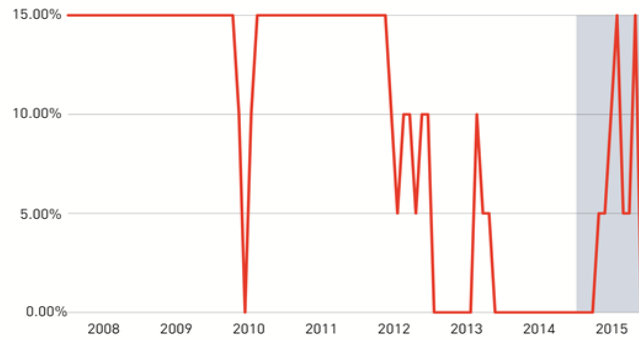
Under the Softwood Lumber Agreement ("SLA") implemented by the federal governments of Canada and the US in 2006, Canadian softwood lumber exporters pay an export tax on lumber shipped to the US when the price of lumber is at or below US\$355 per Mfbm, as determined by the Random Lengths Framing Lumber Composite Price. When the price is at or below US\$355 per Mfbm, the export tax rate ranges between 5% and 15%. In January 2012, the governments of Canada and the US exercised an option to extend the SLA from its original expiry date in 2013 to October 2015.

On October 12, 2015, the SLA expired. No trade actions may be imposed for the importation of softwood lumber from Canada to the US for a period of twelve months following the SLA expiry date (commonly referred to as a "stand-still period"). Canfor will continue to participate in discussions with industry counterparts and support the governments of both countries in working towards a satisfactory resolution before the end of the stand-still period. Further discussion of the SLA agreement may be found under "Softwood Lumber Agreement" in the "Risks and Uncertainties" section of this document.

The average export tax rate on US bound shipments in 2015, up to the SLA expiry date, was 5% resulting in tax payments of approximately \$28.1 million, while no export taxes were paid on US bound shipments in 2014. The following chart shows the average SLA export tax rate in 2015 and the seven years prior (Chart 8), with the rate fluctuating over this period of time in connection with the Random Lengths Framing Lumber Composite Price.

Chart 8

SLA EXPORT TAX



Source: Canada Revenue Agency.

(iv) Impacts of Mountain Pine Beetle (“MPB”) still significant, but Company well positioned going forward

For more than a decade, the MPB epidemic has been the primary focus for almost all of the Company’s Western Canadian operations. Only now has the infestation largely run its course with estimates indicating that pine mortality has reached approximately 55%, where it has been for the last 3 years. Northern Alberta is still experiencing higher levels of attack and anticipates this trend will continue for the next 2 to 4 years. In the most heavily attacked areas in British Columbia, salvage harvesting continues but the harvest profile is gradually shifting from dead pine into green or mixed stands and will do so for another 5 to 7 years as the remaining dead stands are harvested or the quality deteriorates to the point that the stands are no longer viable for sawlog harvest. In these areas, declining timber quality, smaller piece size and blow down are resulting in increased operational costs. This will be offset in the short to medium-term as the harvest moves into mixed species stands.

Recent forecasts have predicted that annual allowable harvest rates in BC could be reduced by more than 30% from current levels. Some reductions have already occurred, such as for the Prince George (16%), Quesnel (24%) and Lakes (38%) Timber Supply Areas. Timber Supply Review processes have recently been completed (or are very close to being complete) in other areas, and have resulted in increases in the annual allowable harvest rates. This includes Tree Farm License 30 in the Prince George region (25% increase), Mackenzie Timber Supply Area (48% increase for 10 years) and Tree Farm License 48 in the Chetwynd area (72% increase for 5 years). Some Northern Alberta harvest rates have been temporarily increased to deal with the rising MPB infestation and additional temporary increases could be made for the same reason in other areas of the province.

In anticipation of these impacts, the Company has taken a number of actions to ensure the viability and competitiveness of its operations. These include the acquisition of the Kootenay area tenure and sawmill operations in 2012, the exchange of timber rights with West Fraser in 2013, the permanent closure of its Quesnel sawmill, and an additional forest license acquired in the Kootenay region of BC in 2015. Also in 2015, the Company entered into a timber investment loan which includes an option to acquire a forest license in the Prince George region of BC. The Company has also been actively working with many First Nations to build business relationships that provide the Company some level of certainty in gaining access to additional fibre. As a result of these initiatives, the Company has minimized its exposure to areas most heavily impacted by the MPB, and the remaining operations are forecast to have sufficient fibre supply through the transition to lower provincial harvest levels and green or mixed species stands. An additional benefit of this is that the Company is very well situated to start moving fibre between some of its traditional operating areas which will allow the Company to continue to meet both species and profile targets for its mills.

In Alberta, the provincial government has implemented short-term actions and a long-term strategy to mitigate the risks associated with the MPB. Included in these are comprehensive detection surveys and removal of individual trees from newly infested stands, as well as a collaborative approach by government and the forest industry to achieve a

75% reduction in the amount of susceptible pine in Alberta by 2026. The latter has resulted in a 12% increase in the annual allowable cut ("AAC") of the Company's Forest Management Agreement ("FMA") area for a 15 year period. Additionally, the Province of Alberta approved a 103% AAC increase for the Company's quota area in northern Alberta which will enable a shift of a significant portion of the harvest for the Grande Prairie Sawmill into the northern area where the MPB infestation has been most severe. This shift, which is forecast to last for 5-7 years, will result in higher than normal log transportation costs but will mitigate potential impacts to long-term timber supply and ensure the timber is harvested before the quality deteriorates significantly.

Closed and indefinitely idled operations

In the fourth quarter of 2015, the Company permanently closed its Canal Flats Sawmill as a result of a lack of economically available fibre supply combined with depressed market conditions in the oil and gas and lumber markets that the operation serves. The closure removed approximately 180 million board feet of Western SPF lumber capacity. In 2015, the Company recorded a related \$19.4 million provision, part of which has been paid in 2015.

In 2014, the Company closed its Quesnel sawmill as a result of limited timber availability in the region following the MPB infestation.

In 2011 and 2012, the Company closed, or announced the closing of, three of its operations in response to the continued difficult market conditions for solid wood products, and fibre supply challenges relating to the MPB impact:

- In January 2011, the Clear Lake lumber operation was permanently closed due to weak prices for stud lumber and a lack of economical long-term fibre available to that mill.
- In January 2012 the Rustad Sawmill and Tackama Plywood Plant were permanently closed due to a combination of MPB fibre challenges, the difficult market conditions and the level of capital investment required to make both operations economically viable.

The Company's PolarBoard OSB Plant in Fort Nelson, which was indefinitely idled in mid-2008, remains idled.

Pulp and Paper Operations

Total NBSK production increased from 2014, reflecting additional operating days and improved operated rates in 2015. NBSK operating rates exceeded target levels and improved by approximately 75 tonnes per day (2%) on average in 2015. Kraft paper production was down somewhat from 2014 reflecting record operating rates in the prior year, but the paper machine still performed at historically high rates. Notwithstanding the depressed BCTMP markets, the Taylor pulp mill operated at or near target rates through most of 2015. Scheduled maintenance outages were completed at all facilities in 2015.

Energy revenues increased in 2015 reflecting a full year of energy output from the Northwood pulp mill turbine and nine months of output from the Intercontinental pulp mill turbine which started selling power at the beginning of April. With all three turbines operating, the Company will be 100% energy self-sufficient and remains on track to deliver its targeted earnings and cash flow for 2016 and beyond.

Integration

The Company continues to build on the successful integration of Canfor and CPPI leadership teams and key business areas that commenced in 2012. Both companies continue to recognize sustainable benefits from further integration and alignment, specifically in the areas of residual fibre management, transportation and logistics. Integration remains a key focus area for Canfor and CPPI, as well as for Canfor Canadian and US South operations, particularly given the growth of the Company's operations in the US and the sale of Canfor's BCTMP Taylor pulp mill to CPPI.

OVERVIEW OF CONSOLIDATED RESULTS – 2015 COMPARED TO 2014

Selected Financial Information and Statistics

(millions of Canadian dollars, except for per share amounts)	2015	2014
Sales	\$ 3,925.3	\$ 3,347.6
Operating income before amortization	\$ 355.6	\$ 511.8
Operating income	\$ 141.6	\$ 329.3
Foreign exchange loss on long-term debt	\$ (5.9)	\$ -
Loss on derivative financial instruments ⁶	\$ (28.1)	\$ (8.9)
Net income	\$ 91.9	\$ 221.8
Net income attributable to equity shareholders of Company	\$ 24.7	\$ 175.2
Net income per share attributable to equity shareholders of Company, basic and diluted	\$ 0.18	\$ 1.28
ROIC – Consolidated ⁷	2.3%	13.3%
Average exchange rate (US\$/CDN\$) ⁸	\$ 0.783	\$ 0.905

⁶ Includes gains (losses) from energy, foreign exchange, lumber and interest rate derivatives (see "Unallocated and Other Items" section for more details).

⁷ 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 year. Invested capital is equal to capital assets, plus long-term investments and net non-cash working capital, all excluding minority interest components.

⁸ Source – Bank of Canada (average noon rate for the period).

(millions of Canadian dollars)	2015	2014
Operating income (loss) by segment:		
Lumber	\$ 30.2	\$ 230.7
Pulp and Paper	\$ 144.8	\$ 129.9
Unallocated and Other	\$ (33.4)	\$ (31.3)
Total operating income	\$ 141.6	\$ 329.3
Add: Amortization	\$ 214.0	\$ 182.5
Total operating income before amortization⁹	\$ 355.6	\$ 511.8
Add (deduct):		
Working capital movements	\$ (66.3)	\$ (73.6)
Defined benefit plan contributions	\$ (5.9)	\$ (29.7)
Income taxes paid, net	\$ (61.3)	\$ (39.5)
Other operating cash flows, net ¹⁰	\$ 32.5	\$ 16.9
Cash from operating activities	\$ 254.6	\$ 385.9
Add (deduct):		
Finance expenses paid	\$ (12.7)	\$ (11.4)
Share purchases	\$ (59.2)	\$ (108.9)
Acquisitions of non-controlling interests	\$ (25.3)	\$ (2.0)
Distributions paid to non-controlling interests	\$ (56.8)	\$ (10.2)
Capital additions, net	\$ (240.0)	\$ (234.3)
Acquisitions	\$ (263.4)	\$ (9.9)
Proceeds from long-term debt	\$ 388.4	\$ 75.0
Repayment of long-term debt	\$ (175.0)	\$ -
Timber investment loan	\$ (30.0)	\$ -
Change in restricted cash ¹¹	\$ 50.2	\$ (50.2)
Proceeds from sale of Lakeland Winton	\$ 15.0	\$ -
Proceeds from the sale of the Daaquam operation	\$ -	\$ 23.6
Foreign exchange gain on cash and cash equivalents	\$ 13.2	\$ 6.5
Other, net	\$ (9.8)	\$ 11.9
Change in cash / operating loans	\$ (150.8)	\$ 76.0

⁹ Amortization includes certain capitalized major maintenance costs.

¹⁰ Further information on operating cash flows can be found in the Company's annual consolidated financial statements.

¹¹ 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.

Analysis of Specific Items Affecting Comparability of Shareholder Net Income

After-tax impact, net of non-controlling interests

(millions of Canadian dollars, except for per share amounts)	2015	2014
Shareholder Net Income, as reported	\$ 24.7	\$ 175.2
Gain on investment in Lakeland Mills Ltd. and Winton Global Lumber Ltd. ¹²	\$ (6.1)	\$ -
Loss on derivative financial instruments	\$ 17.6	\$ 5.9
Mill closure provisions	\$ 14.4	\$ -
Foreign exchange loss on long-term debt	\$ 5.1	\$ -
Pension plan legislative changes	\$ 2.4	\$ -
Mark-to-market adjustment on Taylor pulp contingent consideration, net ¹³	\$ 0.7	\$ -
Mark-to-market adjustment to Canfor-LP OSB sale contingent consideration ¹⁴	\$ -	\$ 9.4
Gain on sale of Daaquam operation	\$ -	\$ (1.6)
Net impact of above items	\$ 34.1	\$ 13.7
Adjusted shareholder net income	\$ 58.8	\$ 188.9
Shareholder net income per share (EPS), as reported	\$ 0.18	\$ 1.28
Net impact of above items per share	0.25	0.10
Adjusted shareholder net income per share	\$ 0.43	\$ 1.38

¹² On July 1, 2015, Canfor sold its 33.3% interest in Lakeland Mills Ltd. and Winton Global Lumber Ltd. for \$30.0 million and recorded a \$7.0 million gain before tax.

¹³ 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.

¹⁴ The Company completed the sale of its 50% share of the Canfor-LP OSB Limited Partnership ("Canfor-LP OSB") in the second quarter of 2013. As part of the sale, Canfor may receive additional annual consideration over a 3 year period, starting June 1, 2013, based on Peace Valley OSB's annual adjusted earnings before interest, tax, depreciation and amortization. The estimated fair value of the contingent consideration at December 31, 2015 is nil.

The Company recorded net income attributable to equity shareholders of \$24.7 million, or \$0.18 per share, for the year ended December 31, 2015, a variance of \$150.5 million, or \$1.10 per share, from \$175.2 million, or \$1.28 per share, reported for the year ended December 31, 2014.

After taking account of specific items affecting comparability with prior periods, the Company's 2015 adjusted shareholder net income was \$58.8 million, or \$0.43 per share, down \$130.1 million, or \$0.95 per share, compared to similarly adjusted shareholder net income of \$188.9 million, or \$1.38 per share, for 2014.

Reported operating income for 2015 was \$141.6 million, down \$187.7 million from operating income of \$329.3 million for 2014. Included in operating income in 2015 were unusual expenses of \$22.6 million (before tax). Excluding these items, operating income was down \$165.1 million from 2014, as improved results in the pulp and paper segment were more than offset by lower operating earnings in the lumber segment. Compared to 2014, lower operating income for 2015 in the lumber segment reflected lower Canadian dollar sales realizations and higher unit log costs, slightly offset by improved productivity and the positive contribution from the Company's acquisitions in the current year. In the pulp and paper segment, operating income reflected higher NBSK sales realizations, improved operating rate and shipment volumes, as well as greater contributions from the Company's recent energy investments and paper business.

A more detailed review of the Company's operational performance and results is provided in the "Operating Results by Business Segment – 2015 compared to 2014" section, which follows this overview of consolidated results.

OPERATING RESULTS BY BUSINESS SEGMENT – 2015 COMPARED TO 2014

The following discussion of Canfor's operating results relates to the operating segments and the non-segmented items as per the Segmented Information note in the Company's consolidated financial statements.

Canfor's operations include the Lumber and Pulp and Paper segments. The results of the panels business are included in the Unallocated & Other segment.

Lumber

Selected Financial Information and Statistics – Lumber

Summarized results for the Lumber segment for 2015 and 2014 are as follows:

(millions of Canadian dollars, unless otherwise noted)	2015	2014
Sales	\$ 2,740.1	\$ 2,245.1
Operating income before amortization	\$ 174.3	\$ 345.8
Operating income	\$ 30.2	\$ 230.7
Mill closure provisions	\$ 19.4	\$ -
One-time costs associated with pension legislative changes	\$ 3.2	\$ -
Operating income excluding unusual items	\$ 52.8	\$ 230.7
Capital expenditures	\$ 161.7	\$ 166.6
Average SPF 2x4 #2&Btr lumber price in US\$ ¹⁵	\$ 278	\$ 349
Average SPF price in Cdn\$	\$ 356	\$ 386
Average SYP 2x4 #2 lumber price in US\$ ¹⁶	\$ 382	\$ 418
US housing starts (thousand units) ¹⁷	1,107	1,001
Production – SPF lumber (MMfbm) ¹⁸	3,829.6	3,722.1
Production – SYP lumber (MMfbm) ¹⁸	1,161.9	575.1
Shipments – Canfor-produced SPF lumber (MMfbm) ¹⁹	4,016.1	3,735.9
Shipments – Canfor-produced SYP lumber (MMfbm) ¹⁹	1,196.6	625.0
Shipments – wholesale lumber (MMfbm)	24.0	18.6

¹⁵ Western Spruce/Pine/Fir, per thousand board feet (Source – Random Lengths Publications, Inc.).

¹⁶ Southern Yellow Pine, Eastside, per thousand board feet (Source – Random Lengths Publications, Inc.).

¹⁷ Source – US Census Bureau.

¹⁸ Excluding production of trim blocks.

¹⁹ Canfor-produced lumber, including lumber purchased for remanufacture and excluding trim blocks.

Overview

The lumber segment reported operating income of \$30.2 million for 2015, down \$200.5 million from \$230.7 million in 2014. Excluding the impact of the aforementioned Canal Flats closure and pension plan legislative changes, operating income was \$52.8 million in 2015, down \$177.9 million compared to adjusted operating income of \$230.7 million in 2014.

For the most part, the decrease in lumber earnings was attributable to lower overall sales realizations, as the benefit from the 12 cent, or 14%, weaker Canadian dollar was more than offset by lower SPF and SYP benchmark lumber prices throughout the year. Also impacting the lumber segment were higher log costs in British Columbia reflecting MPB-related cost pressures, higher contractor rates and increased road construction costs, offset in part by lower diesel costs. Higher lumber production compared to 2014 reflected both the Company's recent acquisitions in the US South as well as a solid improvement in productivity, offset in part by the closure of Canal Flats late in the year.

Markets

Reflecting the US South acquisitions in 2015, Canfor-produced sales volume for 2015 was approximately 5.2 billion board feet, up 852 million board feet, or 20%, from 4.4 billion board feet for 2014, with SPF and SYP making up 77% and 23% of total 2015 sales volumes, respectively. SYP shipments increased by approximately 91%, largely reflecting the recent acquisitions in the US South.

Total US housing starts averaged 1,107,000 units in 2015, an increase of 11% from 2014, and the highest annual average since 2007. The repair and remodeling sector also demonstrated continued modest growth throughout the year, bolstered by a rise in consumer confidence which led to an increase in home improvement projects.

In Canada, lumber consumption was stable in 2015 with housing starts averaging 194,000 units, an increase of 3% from 2014.

Offshore lumber shipments were higher in 2015, with stable shipments to China and shipments to Japan up from 2014. As mentioned, China's economy softened somewhat in the latter part of the year following a slowdown of construction activity, which resulted in excess inventory and significant price pressure for low grade products before recovering somewhat by the end of the year. Consistent with its strategy, the Company increased the volumes of higher-value lumber products and grades through 2015, which reduced exposure to the effects of the low-grade oversupply to China. Lumber demand in other offshore markets, such as Japan and Korea, saw solid improvements in the year.

Sales

Lumber segment revenues of over \$2.7 billion for 2015 were up 22% compared to 2014, reflecting increased shipments and the weaker Canadian dollar, offset in part by the lower lumber prices and higher export taxes on US bound shipments from Canada during the year. Total shipments of Canfor-produced lumber were approximately 5.2 billion board feet for the year, up 20% from 4.4 billion board feet shipped in the previous year, mainly reflecting the recent acquisitions in the US South. From an industry perspective, the combination of a weaker Canadian dollar and increased lumber production directed to the US market resulted in Western SPF and SYP lumber prices coming under pressure during the year. The Western SPF lumber 2x4 #2&Btr Random Lengths price averaged US\$278 per Mfbm, a US\$71 per Mfbm, or 20%, decrease over the previous year with lower prices seen across most other dimensions and grades, as highlighted in the following table which shows benchmark Random Lengths prices for selected key grades and widths of Western SPF lumber:

(Average Western SPF US\$ price, per thousand board feet)	2015	2014
2x4 #2&Btr	\$ 278	\$ 349
2x4 #3	\$ 209	\$ 302
2x6 #2&Btr	\$ 280	\$ 349
2x10 #2&Btr	\$ 329	\$ 378

Prices for SYP products were also lower compared to 2014, with the average Random Length SYP East 2x4 #2 price down US\$36 per Mfbm, or 9%, from 2014 to US\$382 per Mfbm. Similar decreases were seen in most-wider dimension SYP products, as highlighted in the following table:

(Average SYP East US\$ price, per thousand board feet)	2015	2014
2x4 #2	\$ 382	\$ 418
2x6 #2	\$ 317	\$ 354
2x8 #2	\$ 298	\$ 352
2x10 #2	\$ 338	\$ 378
2x12 #2	\$ 444	\$ 505

Offshore sales realizations, which also benefitted from the weaker Canadian dollar, decreased slightly compared to 2014 principally reflecting the deeper price declines for China low grade products. Further contributing to the year-over-year decrease in sales realizations was the 5% average export tax rate on US bound shipments from Canada.

Total residual fibre revenue for 2015 was up from the prior year primarily due to the recent acquisitions in the US South, offset in part by the closure of the Canal Flats Sawmill.

Export Taxes

Under the SLA implemented by the federal governments of Canada and the US in 2006, up until October 12, 2015, Canadian softwood lumber exporters paid an export tax on lumber shipped to the US when the price of lumber was at or below US\$355 per Mfbm, as determined by the Random Lengths Framing Lumber Composite Price ("RLCP") which includes benchmark lumber prices from a variety of lumber species and dimensions across the North American lumber market. The export tax rate was determined monthly, with the monthly price calculated as the four week average of the weekly RLCP available 21 days before the beginning of the month to which it applies. The rate was applied based on the following trigger prices:

<u>Trigger RLCP Price</u>	<u>Tax Rate</u>
Over US\$355	0 %
US\$336-\$355	5 %
US\$316-\$335	10 %
US\$315 and under	15 %

The SLA also included a "Surge Mechanism", which increased the export tax rate for the month by 50% when the monthly volume of exports from a region exceeded a "Trigger Volume" as defined in the SLA.

The average export tax rate on US bound shipments prior to the expiry of the SLA in mid-October 2015 was 5%, which resulted in tax payments of \$28.1 million, while no export taxes were paid on US bound shipments in 2014. The average RLCP for 2015 was US\$330 per Mfbm, US\$53 lower than 2014. At December 31, 2015, the RLCP was US\$320 per Mfbm.

Operations

Total lumber production for 2015 was 5.0 billion board feet, up approximately 700 million board feet, or 16%, from 2014. Higher lumber production in the current year predominantly reflected the recent acquisitions in the US South, offset by the closure of the Canal Flats sawmill in 2015, the closure of the Quesnel sawmill in 2014 and the sale of the Daaquam sawmill in early 2014. Excluding these, lumber production was up 8% compared to 2014, reflecting a solid improvement in productivity following several major capital upgrades in recent years.

Lumber unit manufacturing costs increased compared to the previous year driven largely by increased upward pressures on non-quota timber and a continued shift out of the Mountain Pine Beetle dominated log profile over the past several years which has resulted in increases to logging, hauling and purchased wood costs in BC operations. Added costs for road building and block development in 2015 have also resulted from this fibre profile shift. The Company's US operations' log costs increased marginally from the prior year, principally reflecting high-quality logs processed at the newly acquired high value operations in the US South.

Compared to the prior year and excluding the impacts of the recently acquired US South operations, unit conversion costs decreased as productivity improvements, energy consumption decreases at various operations, and a reduction in contractor services outweighed slightly higher labour costs.

Pulp and Paper

Selected Financial Information and Statistics – Pulp and Paper²⁰

Summarized results for the Pulp and Paper segment for 2015 and 2014 are as follows:

(millions of Canadian dollars, unless otherwise noted)	2015	2014
Sales	\$ 1,185.2	\$ 1,102.5
Operating income before amortization ²¹	\$ 210.2	\$ 194.5
Operating income	\$ 144.8	\$ 129.9
Capital expenditures	\$ 68.3	\$ 58.0
Average pulp price delivered to US - in US\$ ²²	\$ 972	\$ 1,025
Average pulp price in Cdn\$	\$ 1,243	\$ 1,133
Production – pulp (000 mt)	1,235.8	1,200.1
Production – paper (000 mt)	136.8	144.0
Shipments – Canfor-produced pulp (000 mt)	1,242.8	1,175.4
Shipments – paper (000 mt)	133.4	142.5

²⁰ Includes 100% of CPPI, which is consolidated in Canfor's operating results. Pulp production and shipment volumes presented are for both NBSK pulp and BCTMP.

²¹ Amortization includes certain capitalized major maintenance costs.

²² Per tonne, NBSK pulp list price delivered to US (Resource Information Systems, Inc.).

²³ 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 PPPC.

Overview

The Pulp and Paper segment reported operating income of \$144.8 million for 2015, up \$14.9 million from \$129.9 million in 2014. The improvement in operating income compared to 2014 was principally the result of higher Canadian dollar NBSK pulp and paper unit sales realizations, increased NBSK pulp shipments and operating rates as well as higher energy revenues. Partly offsetting these factors were market-driven increases to NBSK pulp fibre costs and challenging BCTMP markets.

Markets

Global softwood pulp markets saw downward pressure on prices in all regions through 2015. While overall global pulp demand was steady, additional hardwood pulp capacity, principally from South America, was absorbed into global markets, particularly China. Global shipments of bleached softwood kraft pulp were up slightly compared to 2014. Global softwood pulp producer inventories trended as forecast in the first half of 2015, increasing in the first quarter of 2015 with limited industry maintenance downtime; and then falling through the spring maintenance period in the second quarter of 2015. Thereafter, inventories remained at the high end of the balanced range through the second half of 2015.

At the end of December 2015, World 20²³ producers of bleached softwood pulp inventories were at 29 days' supply, remaining within the balanced range due in part to strong shipments towards the end of the year. By comparison, December 2014 inventories were at 31 days' supply. Market conditions are generally considered balanced when inventories are in the 27-30 days of supply range.

Sales

The Company's pulp shipments in 2015 were 1,242,800 tonnes, up approximately 67,400 tonnes, or 6%, from the prior year. The increased shipment volumes largely reflected stronger production volumes in the second half of 2015, and included proportionately higher NBSK pulp shipments to North America and China than 2014. The Company's paper shipments in 2015 were 133,400 tonnes, a decrease of 9,100 tonnes, or 6%, from 2014 primarily the result of lower production levels during 2015.

North American NBSK pulp list prices averaged US\$972 per tonne in 2015, down US\$53, or 5%, from US\$1,025 per tonne while average NBSK pulp list prices to Europe and China saw more pronounced declines in 2015, down US\$78 per tonne and US\$89 per tonne respectively. Despite lower list prices, NBSK pulp unit sale realizations were modestly higher in 2015 largely reflecting the benefit of the 14% weaker Canadian dollar in 2015. BCTMP markets were under pressure for much of 2015 and as a result, US-dollar BCTMP prices trended downward through the year. Revenues in the pulp segment were bolstered by higher energy revenue in 2015 largely reflecting the incremental power

production from the Intercontinental pulp mill turbine which started selling power in April 2015. Paper unit sales realizations were significantly higher in 2015 reflecting the favourable impact of the 14% weaker Canadian dollar as well as proportionately higher prime bleached shipments offset by lower US-dollar prices.

Operations

Pulp production, at 1,235,800 tonnes in 2015, up approximately 35,700 tonnes, or 3%, reflecting additional operating days and higher operating rates, particularly in the second half of 2015. 2015 results included maintenance outages at all of the Company's pulp mills with reductions in overall production volumes relatively consistent with the prior year. Paper production in 2015 was 136,800 tonnes, down 7,200 tonnes, or 5%, from 2014 primarily reflecting modestly lower operating rates and an extended maintenance outage in 2015. In the prior year, the Company's paper machine set annual production and operating rate records.

Pulp unit manufacturing costs were up slightly from 2014 principally due to modestly higher fibre costs while unit conversion costs were broadly in line with the prior year. The increase in fibre costs compared to 2014 resulted largely from market-driven increases in delivered sawmill residual chips somewhat offset by lower freight costs and lower prices for whole-log chips in 2015.

Paper unit manufacturing costs were moderately higher compared to 2014, reflecting higher slush pulp costs (linked to higher Canadian dollar market pulp prices) and increased operating supply costs coupled with lower production levels in 2015.

Unallocated and Other Items

(millions of Canadian dollars)	2015	2014
Operating loss of Panels operations ²⁴	\$ (3.4)	\$ (3.9)
Corporate costs	\$ (30.0)	\$ (27.4)
Finance expense, net	\$ (24.9)	\$ (18.2)
Foreign exchange loss on long-term debt	\$ (5.9)	-
Loss on derivative financial instruments	\$ (28.1)	\$ (8.9)
Other income (expense), net	\$ 27.7	\$ (4.2)

²⁴ The Panels operations include the Company's PolarBoard OSB plant, which is currently indefinitely idled and its Tackama plywood plant, which was closed in January 2012.

Corporate Costs

Corporate costs, which comprise corporate, head office and general and administrative expenses, were \$30.0 million in 2015, up \$2.6 million from 2014. For the most part, the increase reflected higher legal costs, including those related to acquisitions and the expiry of the SLA.

Finance Income and Expense

Net finance expense for 2015 was \$24.9 million, up \$6.7 million from 2014. The increase resulted from higher debt levels associated with the strategic financings and acquisitions completed in the year and increased amounts drawn on the Company's operating loans.

Foreign Exchange Loss on Translation of Long-Term Debt

In 2015, the Company issued US\$100.0 million of senior unsecured notes concurrent with the acquisition of Anthony Forest Products, and entered into an eight-year floating interest rate term loan for US\$100.0 million to further support the Company's growth in the US. As a result of the US dollar denominated debt issued in 2015, the Company recorded a foreign exchange translation loss of \$5.9 million.

Loss on Derivative Financial Instruments

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 2015, the Company recorded a net loss of \$28.1 million related to its derivative financial instruments, principally reflecting unrealized losses on foreign exchange collars as a result of the weakening of the Canadian dollar at the close of 2015 relative to the exchange rate at the close of 2014. Further contributing to the net loss were crude oil collars stemming from a sharp decline in oil prices at the end of 2015, with oil prices declining further early in 2016.

The following table summarizes the amounts of the various components for the comparable periods. Additional information on the derivative financial instruments in place at year end can be found in the "Liquidity and Financial Requirements" section, later in this document.

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

Other Income (Expense), net

Other income, net in 2015 of \$27.7 million principally reflected a gain of \$20.9 million relating to foreign exchange movements on US dollar denominated cash, receivables and payables of Canadian operations, compared to a gain on foreign exchange in the prior year of \$9.2 million. In 2014, the Company recorded a gain of \$2.2 million related to the sale of the Daaquam operation and an unfavourable fair value adjustment of \$12.8 million related to the Canfor-LP OSB contingent consideration asset, largely reflecting a decrease in OSB prices since the sale in May 2013 and weaker forecast OSB prices over the earn-out period.

Income Tax Expense

The Company recorded an income tax expense of \$18.5 million in 2015, compared to \$76.2 million in 2014, with an overall effective tax rate of 17% (2014 - 26%).

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

(millions of Canadian dollars)	2015	2014
Net income before income taxes	\$ 110.4	\$ 298.0
Income tax expense at statutory rate 2015 - 26.0% (2014 - 26.0%)	\$ (28.7)	\$ (77.5)
Add (deduct):		
Non-taxable income related to non-controlling interests	3.9	0.6
Entities with different income tax rates and other tax adjustments	6.6	0.8
Permanent difference from capital gains and losses and other non-deductible items	(0.3)	(0.1)
Income tax expense	\$ (18.5)	\$ (76.2)

Other Comprehensive Income (Loss)

(millions of Canadian dollars)	2015	2014
Foreign exchange translation differences for foreign operations, net of tax	\$ 72.8	\$ 22.7
Defined benefit actuarial gains (losses), net of tax	21.1	(85.2)
Other comprehensive income (loss), net of tax	\$ 93.9	\$ (62.5)

Canfor measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at December 31 of each year. Any actuarial gains or losses which arise are recognized immediately by means of a credit or charge through other comprehensive income. For 2015, an after-tax gain of \$21.1 million was recorded to other comprehensive income, which comprised gains on the defined benefit post-employment compensation plans and other non-pension post-employment benefits. The gain associated with the defined benefit post-employment compensation plans largely reflected a higher discount rate used to value the net defined benefit obligation offset in part by unfavourable actuarial experience adjustments, and a lower return on plan assets. The gains related to the other non-pension post-employment benefits largely reflected a higher discount rate used to value the obligation and a reduction in the medical claims cost assumptions, offset in part by unfavourable actuarial experience adjustments. In 2014, an after-tax loss of \$85.2 million was recorded to other comprehensive income, primarily reflecting a lower discount rate used to value the net defined benefit obligation and unfavourable experience adjustments as part of the tri-annual funding valuation for certain defined benefit pension plans, offset in part by a return on plan assets. For

more information, see the “Employee Future Benefits” part of the “Critical Accounting Estimates” section later in this report.

In addition, the Company recorded a gain of \$72.8 million to Other Comprehensive Income in 2015 related to foreign exchange differences for foreign operations, resulting from the weakening of the Canadian dollar relative to the US dollar in 2015 and the recent acquisitions in the US South. This compared to a gain of \$22.7 million in 2014 also due to a weakening of the Canadian dollar relative to its US counterpart.

SUMMARY OF FINANCIAL POSITION

The following table summarizes Canfor’s financial position as at December 31, 2015 and 2014:

(millions of Canadian dollars, except for ratios)	2015	2014
Cash and cash equivalents	\$ 97.5	\$ 158.3
Restricted cash	-	50.2
Operating working capital	385.0	320.3
Current portion of deferred reforestation	(50.7)	(52.1)
Net working capital	431.8	476.7
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
Forward purchase liability	(76.1)	-
Net assets	\$ 2,658.3	\$ 2,419.2
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	191.1	210.2
Non-controlling interests	296.8	250.4
Equity attributable to shareholders of Company	1,330.9	1,387.2
	\$ 2,658.3	\$ 2,419.2
Ratio of current assets to current liabilities	1.6 : 1	2.1 : 1
Net debt to total capitalization	24.1%	5.1%

The ratio of current assets to current liabilities at the end of 2015 was 1.6:1 compared to 2.1:1 at the end of 2014, and reflected the Company’s lower cash and cash equivalent balances net of amounts drawn on operating loans at December 31, 2015 compared to December 31, 2014.

The Company’s net debt to capitalization was 24.1% at December 31, 2015 (December 31, 2014: 5.1%) primarily reflecting the financing of various acquisitions and strategic capital initiatives, including the new pellet plants in the Northern BC interior during 2015.

CHANGES IN FINANCIAL POSITION

At the end of 2015, Canfor had \$97.5 million of cash and cash equivalents.

(millions of Canadian dollars)	2015	2014
Cash generated from (used in)		
Operating activities	\$ 254.6	\$ 385.9
Financing activities	149.4	(64.7)
Investing activities	(478.0)	(258.9)
Increase (decrease) in cash and cash equivalents, before foreign exchange gain on cash and cash equivalents	\$ (74.0)	\$ 62.3

The changes in the components of these cash flows during 2015 are discussed in the following sections.

Operating Activities

For the 2015 year, Canfor generated cash from operations of \$254.6 million, down \$131.3 million from cash generated of \$385.9 million in the previous year. Operating cash flows reflected a decrease in cash earnings and higher income tax payments during 2015, offset by a smaller increase in non-cash working capital balances compared to the previous year. In 2015, the increase in non-cash working capital in part reflected increased shipments towards the end of the year and the impact of the weaker Canadian dollar on translation of US-dollar denominated accounts receivables balances, as well as higher log inventory levels reflecting favourable logging and hauling weather conditions in Western Canada.

Financing Activities

Financing activities in 2015 provided net cash of \$149.4 million compared to net cash used of \$64.7 million in 2014. In 2015, the Company repaid \$175.0 million of its floating interest rate term debt, completed a new \$125.0 million floating interest rate term debt financing, issued US\$100.0 million of senior unsecured notes concurrent with the acquisition of Anthony Forest Products, and also completed an eight-year floating interest rate term loan for US\$100.0 to further support the Company's growth in the US South. In 2014, a \$75.0 million floating rate term debt financing was put in place for the construction of the pellet plants in Fort St. John and Chetwynd and certain other energy projects. Total dividend payments of \$56.8 million to non-controlling shareholders in 2015 were up \$46.6 million from \$10.2 million in 2014, principally reflecting a special dividend of \$1.125 per share made to the non-controlling shareholders of CPPI in 2015. At December 31, 2015, the Company had a consolidated amount of \$158.0 million drawn on its operating loan facilities.

Cash used for financing activities also included share purchases under Canfor's and CPPI's Normal Course Issuer Bids. During 2015, Canfor purchased 2,572,420 common shares for \$59.2 million (2014: \$108.9 million) and CPPI purchased 1,877,951 common shares from non-controlling shareholders for \$25.6 million (2014: \$2.0 million). See further discussion of the shares purchased under the Normal Course Issuer Bid in the following "Liquidity and Financial Requirements" section.

Investing Activities

In 2015, the Company used net cash for investing activities of \$478.0 million, compared to \$258.9 million in 2014. Additions to property, plant and equipment totaled \$240.0 million, up \$5.7 million from 2014. In the lumber segment, capital spending of \$161.7 million included construction of the pellet plants in Chetwynd and Fort St. John, completion of major capital projects at the Polar, Mackenzie, Grande Prairie, Houston and Jackson operations, the acquisition of a forest license in the Kootenay region of Western Canada, and implementation of a major ERP software system in the eastern region of the Company's US South operations. In the pulp and paper segment, capital spending of \$68.3 million related primarily to the Northwood pulp mill scheduled maintenance outage and final payments related to the completion of the Intercontinental pulp Mill's turbine upgrade, which commenced selling power under an Electricity Purchase Agreement in the second quarter of 2015.

As previously highlighted, during 2015 Canfor completed the third phase of the purchase of Scotch Gulf, the first phase of the purchase of Beadles & Balfour, as well as the acquisition of Southern Lumber and Anthony Forest Products. Investing activities in 2015 also included cash consideration paid of \$30.0 million related to the timber investment loan made to Conifex Inc. and \$15.0 million received for the first payment related to the sale of the Company's investment in Lakeland Mills Ltd. and Winton Global Lumber Ltd. In 2014, Canfor transferred \$50.2 million

into an escrow account in connection with the first phase of the purchase of Beadles & Balfour, which closed on January 2, 2015. In 2014, the Company also completed the sale of its Daaquam Sawmill for proceeds of \$23.6 million.

LIQUIDITY AND FINANCIAL REQUIREMENTS

Operating Loans

At December 31, 2015, the Company on a consolidated basis had cash of \$97.5 million, \$158.0 million drawn on its operating loans, and an additional \$52.7 million reserved for several standby letters of credit. Total available undrawn operating loans at year end were \$309.0 million.

Excluding CPPI, the Company's bank operating loans at December 31, 2015 totaled \$350.0 million, of which \$158.0 million was drawn, and an additional \$39.7 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.

At December 31, 2015, 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 energy-related facility with a maturity of June 30, 2016. At December 31, 2015, CPPI had \$13.0 million in standby letters of credit covered under its operating loan facilities.

Term Debt

During 2015, as outlined above, 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 with the same syndicate of lenders with a maturity of September 28, 2020. In conjunction with the acquisition of Anthony Forest Products Company, 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. Also in 2015, the Company entered into a new eight-year floating interest rate term loan for an additional US\$100.0 million to further support growth in the US. Separately, CPPI has \$50.0 million of floating interest rate term debt, repayable in November 2018.

Debt Covenants

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

In circumstances when debt to total capitalization exceeds a threshold, Canfor (excluding CPPI) is subject to an interest coverage ratio that requires a minimum amount of earnings before interest, taxes, depreciation and amortization relative to net interest expense. Canfor is not currently subject to this test. The debt held by CPPI is subject to the same debt covenants as Canfor.

Provisions contained in both Canfor and CPPI's long-term borrowing agreements also limit the amount of indebtedness that the Company may incur and the amount of dividends it may pay on its common shares. The amount of dividends the Company is permitted to pay under its long-term borrowing agreements is determined by reference to consolidated net earnings less certain restricted payments.

Management reviews results and forecasts to monitor the Company's compliance with these covenant requirements. Canfor was in compliance with all its debt covenants for the year ended December 31, 2015.

Substantially all borrowings of CPPI (operating loans and long-term debt) are non-recourse to other entities within the Company.

Normal Course Issuer Bid

On March 5, 2015, the Company renewed its normal course issuer bid whereby it can purchase for cancellation up to 6,767,993 common shares or approximately 5% of its issued and outstanding common shares as of February 28, 2015. The renewed normal course issuer bid is set to expire on March 4, 2016. In 2015, Canfor purchased 2,572,420

common shares for \$59.2 million (an average price of \$23.01 per common share), of which \$20.3 million was charged to share capital and \$38.9 million charged to retained earnings. In 2014, Canfor purchased 4,527,600 common shares for \$108.9 million (an average price of \$24.05 per common share), of which \$35.7 million was charged to share capital and \$73.2 million charged to retained earnings. Under a separate normal course issuer bid, CPPI purchased 1,877,951 common shares from non-controlling shareholders for \$25.6 million increasing Canfor's ownership of CPPI from 50.5% at December 31, 2014 to 51.9% at December 31, 2015.

2016 Projected Capital Spending and Debt Repayments

Based on its current outlook for 2016, assuming no deterioration in market conditions during the year, the Company anticipates it will invest approximately \$230 million in capital projects which will consist primarily of various improvement projects and maintenance of business expenditures, with proportionately more capital being allocated to the Company's growth in its US South lumber business. There are no scheduled long-term debt payments in 2016. Canfor has sufficient liquidity in its cash reserves and operating loans to finance its planned capital expenditures as required during 2016.

Derivative Financial Instruments

As at December 31, 2015, the Company had the following derivatives:

- Canfor partly uses Brent oil and Western Texas Intermediate ("WTI") oil contracts as a proxy to hedge its diesel purchases. At December 31, 2015, collars for 141 thousand barrels of WTI oil were in place, which will be settled in 2016 and 2017, with weighted average protection of US\$60.18 per barrel and topside of US\$82.98 per barrel. There were unrealized losses of \$3.8 million on these contracts at the end of the year.
- Futures contracts for the sale of lumber with a total notional amount of 8.8 MMfbm. There were no unrealized gains or losses at year end on these contracts.

	2015	
	Notional Amount	Average Rate
Lumber	(MMfbm)	(US dollars per Mfbm)
Futures sales contracts 0 – 12 months	8.8	\$264.73

- Canfor uses interest rate swaps to reduce its exposure to interest rate risk associated with financial obligations bearing variable interest rates. At December 31, 2015, the Company had \$100.0 million in interest rate swaps with fixed interest rates ranging from 1.55% to 1.75% maturing in 2017. There were unrealized losses of \$1.0 million at year end on these swaps.

Commitments and Subsequent Events

The following table summarizes Canfor's financial contractual obligations at December 31, 2015 for each of the next five years and thereafter:

(millions of Canadian dollars)	2016	2017	2018	2019	2020	Thereafter	Total
Long-term debt obligations	\$ -	\$ -	\$ 50.0	\$ -	\$ 129.4	\$ 276.8	\$ 456.2
Operating leases	11.4	9.0	6.7	3.6	3.0	8.2	41.9
	\$ 11.4	\$ 9.0	\$ 56.7	\$ 3.6	\$ 132.4	\$ 285.0	\$ 498.1

Interest payments include interest of 4.4% on the Company's US\$100.0 million term loan and interest on floating rate debt, which will depend on the lenders' Canadian prime rate or bankers' acceptance rate during the year of payment. Interest payments have been excluded from the above commitments.

Other contractual obligations not included in the table above or highlighted previously are:

- Contractual commitments totaling \$40.6 million, which includes commitments for the construction of property, plant and equipment at the Company's sawmills.

- Purchase obligations and contractual obligations in the normal course of business. For example, purchase obligations of a more substantial dollar amount generally relate to the pulp business and are subject to “force majeure” clauses. In these instances, actual volumes purchased may vary significantly from contracted amounts depending on Canfor’s requirements in any given year.
- Contractual commitments of US\$86.0 million, excluding working capital and various lease arrangements, relating to the commitment to purchase the remaining 50% of Scotch Gulf and 45% of Beadles & Balfour remain outstanding at December 31, 2015.
- Deferred reforestation, for which a liability of \$112.3 million has been recorded at December 31, 2015. The reforestation liability is a fluctuating obligation, based on the area harvested. The future cash outflows are a function of the actual costs of silviculture programs and of harvesting and are based on, among other things, the location of the harvesting and the activities necessary to adequately stock harvested areas and achieve a “free-to-grow” state.
- Obligations to pay pension and other post-employment benefits, for which the net liability for accounting purposes at December 31, 2015 was \$255.9 million. As at December 31, 2015, Canfor estimated that it would make total contribution payments of \$15.2 million to its defined benefit plans in 2016.
- CPPI has energy agreements with a BC energy company and electricity transmission provider (the “Energy Agreements”) for three of CPPI’s mills, with commencement dates ranging from 2006 through 2015. These agreements are for the commitment of electrical load displacement and the sale of incremental power from the CPPI’s pulp and paper mills. These Energy Agreements include incentive grants from the BC energy company for capital investments to increase electrical generation capacity, and also call for performance guarantees to ensure minimum required amounts of electricity are generated, with penalty clauses if they are not met. As part of these commitments, CPPI has entered into standby letters of credit for these guarantees. The standby letters of credit have variable expiry dates, depending on the capital invested and the length of the Energy Agreement involved. As at December 31, 2015 the Company had posted \$11.6 million of standby letters of credit under these agreements, and had no repayment obligations under the terms of any of these agreements.

On January 21, 2016, the Company announced that it has entered into an agreement to purchase the assets of Wynndel for an aggregate purchase price, excluding working capital, of \$30.0 million. 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. The agreement is expected to close in the second quarter of 2016 and is subject to customary closing conditions.

TRANSACTIONS WITH RELATED PARTIES

The Company undertakes transactions with various related entities. These transactions are in the normal course of business and are generally on the same terms as those accorded to unrelated third parties, except where noted otherwise. Related party transactions included the purchase of lumber, at market value, from Lakeland Mills Ltd. and Winton Global Lumber Ltd. (“Lakeland Winton”) in which Canfor owned a one-third interest in both entities until the Company sold its interest on July 1, 2015. Prior to Canfor’s sale of its 33.3% interest in Lakeland Winton, it purchased \$2.0 million in chips and logs in the first half of 2015.

Related party transactions in 2015 also included lease, insurance and other services totaling \$4.8 million provided by subsidiaries owned by the Jim Pattison Group. \$0.5 million is outstanding to the Jim Pattison Group subsidiaries at December 31, 2015.

Canfor has a term loan arrangement with Scotch Gulf. In 2015, the Company completed the third phase of the acquisition, resulting in consolidation of Scotch Gulf.

Additional details on related party transactions are contained in Note 23 to Canfor’s 2015 consolidated financial statements

Sale of Taylor Pulp Mill

On January 30, 2015, Canfor completed the sale of its BCTMP Taylor pulp mill to CPPI for cash consideration of \$12.6 million including final working capital. The transaction also includes a long-term fibre supply agreement under which Canfor will supply fibre to the Taylor pulp mill at prices approximating fair market value. In addition to the cash consideration paid on the acquisition date, Canfor may also receive additional contingent consideration over a 3 year period, starting January 31, 2015, based on the Taylor pulp mill's annual adjusted operating income before amortization. On the acquisition date, the fair value of the contingent consideration was \$1.8 million. At December 31, 2015, the contingent consideration had a fair value of nil reflecting a reduction in forecast BCTMP prices over the contingent consideration period. CPPI recognized long-term assets acquired net of liabilities assumed of \$2.8 million and net working capital of approximately \$11.6 million.

SELECTED QUARTERLY FINANCIAL INFORMATION

	Q4 2015	Q3 2015	Q2 2015	Q1 2015	Q4 2014	Q3 2014	Q2 2014	Q1 2014
Sales and income (millions of Canadian dollars)								
Sales	\$ 1,053.0	\$ 989.9	\$ 952.4	\$ 930.0	\$ 860.4	\$ 838.0	\$ 907.3	\$ 741.9
Operating income	\$ 31.8	\$ 8.5	\$ 17.6	\$ 83.7	\$ 62.0	\$ 85.6	\$ 97.3	\$ 84.4
Net income	\$ 19.6	\$ 1.4	\$ 23.9	\$ 47.0	\$ 40.5	\$ 58.2	\$ 64.5	\$ 58.6
Shareholder net income (loss)	\$ 1.6	\$ (17.3)	\$ 11.1	\$ 29.3	\$ 29.9	\$ 45.5	\$ 54.3	\$ 45.5
Per common share (Canadian dollars)								
Shareholder net income (loss) – basic and diluted	\$ 0.01	\$ (0.13)	\$ 0.08	\$ 0.22	\$ 0.22	\$ 0.34	\$ 0.39	\$ 0.33
Book value ²⁵	\$ 10.02	\$ 10.00	\$ 9.86	\$ 9.76	\$ 10.25	\$ 10.24	\$ 9.75	\$ 10.05
Statistics								
Lumber shipments (MMfbm)	1,355	1,343	1,367	1,172	1,092	1,124	1,236	927
Pulp shipments (000 mt)	356	307	292	287	314	291	314	256
Average exchange rate – US\$/Cdn\$	\$ 0.749	\$ 0.764	\$ 0.813	\$ 0.806	\$ 0.881	\$ 0.918	\$ 0.917	\$ 0.906
Average Western SPF 2x4 #2&Btr lumber price (US\$)	\$ 263	\$ 269	\$ 270	\$ 308	\$ 340	\$ 357	\$ 335	\$ 367
Average SYP (East) 2x4 #2 lumber price (US\$)	\$ 400	\$ 331	\$ 383	\$ 413	\$ 427	\$ 438	\$ 405	\$ 403
Average NBSK pulp list price delivered to US (US\$)	\$ 945	\$ 967	\$ 980	\$ 995	\$ 1,025	\$ 1,030	\$ 1,030	\$ 1,017

²⁵ Book value per common share is equal to shareholders' equity at the end of the period, divided by the number of common shares outstanding at the end of the period.

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

(millions of Canadian dollars)	Q4 2015	Q3 2015	Q2 2015	Q1 2015	Q4 2014	Q3 2014	Q2 2014	Q1 2014
Operating income (loss) by segment:								
Lumber	\$ 3.7	\$ (26.9)	\$ 5.1	\$ 48.3	\$ 40.6	\$ 59.6	\$ 74.1	\$ 56.4
Pulp and Paper	\$ 38.6	\$ 42.3	\$ 20.9	\$ 43.0	\$ 29.4	\$ 33.1	\$ 30.9	\$ 36.5
Unallocated and Other	\$ (10.5)	\$ (6.9)	\$ (8.4)	\$ (7.6)	\$ (8.0)	\$ (7.1)	\$ (7.7)	\$ (8.5)
Total operating income	\$ 31.8	\$ 8.5	\$ 17.6	\$ 83.7	\$ 62.0	\$ 85.6	\$ 97.3	\$ 84.4
Add: Amortization	\$ 59.9	\$ 52.6	\$ 52.2	\$ 49.3	\$ 46.9	\$ 47.1	\$ 44.0	\$ 44.5
Total operating income before amortization²⁶	\$ 91.7	\$ 61.1	\$ 69.8	\$ 133.0	\$ 108.9	\$ 132.7	\$ 141.3	\$ 128.9
Add (deduct):								
Working capital movements	\$ (58.5)	\$ 7.1	\$ 86.3	\$ (101.2)	\$ 11.6	\$ (0.2)	\$ 92.8	\$ (177.8)
Defined benefit pension plan contributions	\$ (6.1)	\$ 2.7	\$ (5.5)	\$ 3.0	\$ (3.9)	\$ (6.4)	\$ (5.9)	\$ (13.5)
Income taxes paid, net	\$ (2.1)	\$ (25.1)	\$ (12.1)	\$ (22.0)	\$ (3.1)	\$ (15.1)	\$ (9.5)	\$ (11.8)
Other operating cash flows, net ²⁷	\$ 9.8	\$ 14.1	\$ (12.0)	\$ 20.6	\$ (0.6)	\$ 5.2	\$ (9.9)	\$ 22.2
Cash from (used in) operating activities	\$ 34.8	\$ 59.9	\$ 126.5	\$ 33.4	\$ 112.9	\$ 116.2	\$ 208.8	\$ (52.0)
Add (deduct):								
Finance expenses paid	\$ (3.3)	\$ (3.8)	\$ (3.0)	\$ (2.6)	\$ (2.7)	\$ (3.3)	\$ (2.6)	\$ (2.8)
Share purchases	\$ (20.0)	\$ -	\$ (13.2)	\$ (26.0)	\$ -	\$ (1.2)	\$ (105.7)	\$ (2.0)
Distributions paid to non-controlling								
Interests	\$ (4.0)	\$ (43.1)	\$ (6.7)	\$ (3.0)	\$ (2.5)	\$ (2.7)	\$ (2.9)	\$ (2.1)
Capital additions, net	\$ (83.7)	\$ (61.1)	\$ (49.4)	\$ (45.8)	\$ (54.7)	\$ (63.5)	\$ (63.0)	\$ (53.1)
Acquisitions	\$ (123.9)	\$ -	\$ (66.4)	\$ (73.1)	\$ -	\$ -	\$ -	\$ -
Proceeds from long-term debt	\$ 263.4	\$ 125.0	\$ -	\$ -	\$ 75.0	\$ -	\$ -	\$ -
Repayment of long-term debt	\$ -	\$ (175.0)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Proceeds received from sale of Lakeland Winton	\$ -	\$ 15.0	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Timber investment loan	\$ -	\$ (30.0)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Proceeds from the sale of Daaquam operation	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 0.7	\$ 22.9	\$ -
Investment in Scotch & Gulf Lumber, LLC	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (9.9)	\$ -	\$ -
Repayment from Scotch & Gulf Lumber, LLC	\$ -	\$ -	\$ -	\$ 4.1	\$ 4.8	\$ 2.7	\$ 2.1	\$ 2.6
Change in restricted cash ²⁸	\$ -	\$ -	\$ -	\$ 50.2	\$ (50.2)	\$ -	\$ -	\$ -
Foreign exchange gain on cash and cash equivalents	\$ 3.2	\$ 2.1	\$ (0.5)	\$ 8.4	\$ 3.8	\$ 3.3	\$ (2.5)	\$ 1.9
Other, net	\$ (12.7)	\$ (5.2)	\$ (16.6)	\$ (4.7)	\$ 2.5	\$ (5.6)	\$ 1.7	\$ (0.9)
Change in cash / operating loans	\$ 53.8	\$ (116.2)	\$ (29.3)	\$ (59.1)	\$ 88.9	\$ 36.7	\$ 58.8	\$ (108.4)

²⁶ Amortization includes certain capitalized major maintenance costs.

²⁷ Further information on operating cash flows can be found in the Company's annual consolidated financial statements.

²⁸ 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.

THREE-YEAR COMPARATIVE REVIEW

(millions of Canadian dollars, except per share amounts)	2015	2014	2013
Sales	\$ 3,925.3	\$ 3,347.6	\$ 3,194.9
Net income	\$ 91.9	\$ 221.8	\$ 250.5
Shareholder net income	\$ 24.7	\$ 175.2	\$ 228.6
Total assets	\$ 3,294.6	\$ 2,846.8	\$ 2,693.3
Term debt	\$ 456.2	\$ 228.6	\$ 153.1
Shareholder net income per share, basic and diluted	\$ 0.18	\$ 1.28	\$ 1.61

FOURTH QUARTER RESULTS

Overview of Operating Results

The Company recorded operating income of \$31.8 million and a shareholder net income of \$1.6 million for the fourth quarter of 2015, compared to an operating income of \$8.5 million and shareholder net loss of \$17.3 million in the third quarter of 2015. The shareholder net income per share was \$0.01 per share for the fourth quarter of 2015, compared to a net loss of \$0.13 per share in the third quarter of 2015. Results for the fourth quarter of 2015 included one-time costs before tax of \$3.2 million associated with pension plan legislative changes and a recovery of \$6.2 million related to Western SPF inventory valuation adjustments recorded in the third quarter of 2015. Included in the comparative third quarter of 2015 were costs of \$19.4 million (before tax) related to the announced closure of the Company's Canal Flats sawmill, which ceased operations in November, and the aforementioned \$6.2 million inventory valuation adjustment. Adjusting for these one-time items, operating income was \$28.8 million in the fourth quarter of 2015, down \$5.3 million from adjusted operating income of \$34.1 million in the third quarter of 2015.

Compared to the fourth quarter of 2014, operating income was down \$30.2 million from \$62.0 million, and shareholder net income was down \$28.3 million from \$29.9 million. The shareholder net income per share was \$0.01 for the fourth quarter of 2015, compared to \$0.22 per share in the fourth quarter of 2014. Adjusting for the costs associated with the pension legislative changes and inventory valuation adjustments in the fourth quarter of 2015 mentioned above, fourth quarter operating income was down \$33.2 million compared to the fourth quarter of 2014.

An overview of the results by business segment for the fourth quarter of 2015 compared to the third quarter of 2015 and fourth quarter of 2014 follows.

Lumber

Selected Financial Information and Statistics – Lumber

Summarized results for the Lumber segment for the fourth quarter of 2015, third quarter of 2015 and fourth quarter of 2014 were as follows:

(millions of Canadian dollars, unless otherwise noted)	Q4 2015	Q3 2015	Q4 2014
Sales	\$ 721.8	\$ 695.3	\$ 564.4
Operating income before amortization	\$ 44.8	\$ 8.4	\$ 70.6
Operating income (loss)	\$ 3.7	\$ (26.9)	\$ 40.6
Inventory valuation adjustments	\$ (6.2)	\$ 6.2	\$ -
One-time costs association with pension plan legislative changes	\$ 3.2	\$ -	\$ -
Mill closure provisions	\$ -	\$ 19.4	\$ -
Operating income (loss) excluding impact of inventory valuation adjustments and one-time items	\$ 0.7	\$ (1.3)	\$ 40.6
Average SPF 2x4 #2 & Btr lumber price in US\$ ²⁹	\$ 263	\$ 269	\$ 340
Average SPF price in Cdn\$	\$ 351	\$ 352	\$ 386
Average SYP 2x4 #2 lumber price in US\$ ³⁰	\$ 400	\$ 331	\$ 427
US housing starts (thousand units SAAR) ³¹	1,133	1,158	1,055
Production – SPF lumber (MMfbm) ³²	976.0	926.6	904.9
Production – SYP lumber (MMfbm) ³²	320.7	301.8	137.4
Shipments – Canfor-produced SPF lumber (MMfbm) ³³	1,025.1	1,014.3	937.7
Shipments – Canfor-produced SYP lumber (MMfbm) ³³	321.9	322.7	151.3
Shipments – wholesale lumber (MMfbm)	7.8	6.0	2.5

²⁹ Western Spruce/Pine/Fir, per thousand board feet (Source – Random Lengths Publications, Inc.).

³⁰ Southern Yellow Pine, Eastside, per thousand board feet (Source – Random Lengths Publications, Inc.).

³¹ Source – US Census Bureau, seasonally adjusted annual rate ("SAAR").

³² Excluding production of trim blocks.

³³ Canfor-produced lumber, including lumber purchased for remanufacture and excluding trim blocks.

Overview

Operating income for the lumber segment was \$3.7 million for the fourth quarter of 2015, an increase of \$30.6 million compared to an operating loss of \$26.9 million in the previous quarter, and down \$36.9 million compared to operating income of \$40.6 million in the same quarter of 2014. Excluding inventory valuation adjustments and one-time costs, the lumber segment's operating income was \$0.7 million, up \$2.0 million from the third quarter of 2015 and down \$39.9 million from the same quarter in 2014.

The increase in adjusted operating income for the lumber segment compared to the immediately preceding quarter principally reflected higher SYP sales realizations and, to a lesser extent, lower unit manufacturing costs at the Company's Western SPF operations. Western SPF unit sales realizations were broadly in line with the third quarter of 2015 as the benefit of a 2 cent, or 2%, weaker Canadian dollar largely offset lower US dollar Western SPF 2x4 #2 & Btr benchmark lumber prices in the current quarter. Also impacting Western SPF unit sales realizations were more pronounced price declines in wide dimension products, of which the Company sells proportionately lower volume. Total lumber shipments were up slightly from the prior quarter, while production was up 6% as a combination of more operating days, improved productivity, and the recent addition of the Anthony Forest Products sawmill operation, more than offset the closure of the Canal Flats sawmill in November.

Compared to the fourth quarter of 2014, 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 a 13 cent, or 15%, weaker Canadian dollar. Total lumber shipments and production were well up from the same quarter in 2014 due mostly to the Company's recent US South acquisitions, improved productivity and additional operating days, which more than offset the closure of the Canal Flats sawmill in the current quarter and certain changes in operating shift configurations.

Markets

The US housing market continues its slow but gradual recovery, supported by lower mortgage rates, healthy appreciation in home prices and low inventory of new and existing homes for sale. The last quarter of the calendar year typically sees a seasonal slowdown in housing activity in North America but lumber demand and prices remained relatively stable in the U.S. during the fourth quarter of 2015, as solid demand and better-than-expected weather resulted in balanced lumber consumption from all segments of the North American market. Total housing starts averaged 1,133,000 units SAAR, down 2% from the prior quarter and up 7% from the same period in 2014. Single-family starts, which consume a higher proportion of lumber, increased 2% compared to the third quarter of 2015 to 759,000 units SAAR. The repair and remodeling sector also benefited from improving consumer confidence and the more favourable weather conditions, seeing a modest increase in spending over the period.

The lumber market in China showed some modest improvement through the fourth quarter of 2015, with inventory levels at the end of 2015 well down from the previous quarter, while lumber demand in other offshore markets, such as Japan and Korea, also saw improvements in the fourth quarter of 2015.

In Canada, housing starts remained relatively strong, at an average of 196,000 units SAAR in the fourth quarter of 2015, down 7% compared to the previous quarter, principally reflecting seasonally-slower building activity. Compared to the same quarter of 2014, housing starts were up 6%.

Sales

Sales for the lumber segment for the fourth quarter of 2015 were \$721.8 million, compared to \$695.3 million in the previous quarter and \$564.4 for the fourth quarter of 2014. The 4% increase in sales from the prior quarter was mostly related to the recent acquisition of Anthony Forest Products, improved productivity, seasonally higher log sales and slightly higher SYP sales realizations, offset in part by the closure of the Canal Flats sawmill in November. Compared to the fourth quarter of 2014, the increase of \$157.4 million, or 28%, in sales revenue was primarily due to higher SYP sales realizations and lumber shipments related to the Company's recent acquisitions in the US South, increased productivity, and the benefit of a 15% weaker Canadian dollar, which partially offset lower Western SPF lumber US-dollar prices relative to the same quarter in 2014.

Total lumber shipments in the fourth quarter of 2015, at over 1.3 billion board feet, were in line with the previous quarter as the contribution from the recent acquisition of Anthony Forest Products offset the closure of the Canal

Flats sawmill in November. Compared to the fourth quarter of 2014, total lumber shipments in the current quarter were up 24%, largely reflecting the Company's recent growth in the US South.

Western SPF lumber sales realizations were in line with the previous quarter, as the benefits of a 2% weaker Canadian dollar and reduced export taxes on US bound shipments following the expiry of the SLA in mid-October were offset by lower average Western SPF lumber prices. The benchmark North American Random Lengths Western SPF 2x4 #2&Btr price was down 2%, or US\$6 per Mfbm, compared to the third quarter of 2015, while prices for low grade products, principally destined for offshore markets, trended upwards from the lows seen in September as excess inventory levels in China returned to more normal levels over the course of the current quarter. Prior to the expiry of the SLA in mid-October, the Company paid export taxes on lumber shipments from Canada to the US in the amount of \$3.3 million, down \$11.0 million from the third quarter of 2015. SYP sales realizations in the fourth quarter of 2015 were up slightly from the third quarter of 2015 with the average Random Lengths SYP East 2x4 #2 price up US\$69 per Mfbm to US\$400 per Mfbm. Less pronounced price increases and, in certain cases, price decreases were seen across wider-dimension SYP products.

Compared to the fourth quarter of 2014, Western SPF lumber sales realizations were down, principally reflecting lower benchmark lumber prices, offset in part by the favourable impact of the 13 cents, or 15%, weaker Canadian dollar. The average North American Random Lengths Western SPF 2x4 #2&Btr price was down US\$77 per Mfbm, or 23%, to US\$263 per Mfbm compared to the fourth quarter of 2014. Offshore lumber sales realizations were also lower compared to the fourth quarter of 2014, reflecting weaker US-dollar prices for most grades, particularly low grade products, which more than offset the weaker Canadian dollar. SYP lumber sales realizations were slightly lower, with a higher-value sales mix at the recently acquired US South operations largely offsetting lower benchmark 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. Log sales were also higher compared to the previous quarter of 2015, reflecting seasonally-higher timber harvesting in Western Canada, and up compared to the fourth quarter of 2014 due largely to the recently acquired US South operations.

Operations

Lumber production, at 1.3 billion board feet, was up 6% from the previous quarter principally reflecting additional operating days and to a lesser extent productivity improvements at the Company's Western Canadian operations, offset in part by the closure of the Company's Canal Flats sawmill. Compared to the fourth quarter of 2014, total lumber production was up 24% reflecting the incremental production from the acquisitions of Scotch Gulf, Beadles & Balfour, Southern Lumber and Anthony Forest Products. Excluding lumber production from the recently acquired US South operations, lumber production was 9% higher reflecting additional operating days and improved productivity, following several capital upgrades, offset in part by the closure of the Canal Flats sawmill and certain changes in operating shift configurations since the same quarter in the prior year.

Unit manufacturing costs in the fourth quarter of 2015 were in line with the prior quarter reflecting improved productivity in Western Canada, offset by seasonally higher energy costs. Compared to the fourth quarter of 2014, 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.

Pulp and Paper

Selected Financial Information and Statistics – Pulp and Paper³⁴

Summarized results for the Pulp and Paper segment for the fourth quarter of 2015, third quarter of 2015 and fourth quarter of 2014 were as follows:

(millions of Canadian dollars, unless otherwise noted)	Q4 2015	Q3 2015	Q4 2014
Sales	\$ 331.2	\$ 294.6	\$ 296.0
Operating income before amortization ³⁵	\$ 56.2	\$ 58.6	\$ 45.0
Operating income	\$ 38.6	\$ 42.3	\$ 29.4
Average pulp price delivered to US – US\$ ³⁶	\$ 945	\$ 967	\$ 1,025
Average price in Cdn\$	\$ 1,262	\$ 1,266	\$ 1,164
Production – pulp (000 mt)	322.5	310.5	295.7
Production – paper (000 mt)	35.8	34.6	36.0
Shipments – Canfor-produced pulp (000 mt)	356.2	307.4	314.0
Shipments – paper (000 mt)	35.4	32.1	35.8

³⁴ Includes the 100% of CPPI, which is consolidated in Canfor's operating results. Pulp production and shipment volumes presented are for both NBSK pulp and BCTMP.

³⁵ Amortization includes certain capitalized major maintenance costs.

³⁶ Per tonne, NBSK pulp price delivered to US (RISI).

Overview

Operating income for the pulp and paper segment was \$38.6 million for the fourth quarter of 2015, down \$3.7 million from the third quarter of 2015 and up \$9.2 million from same quarter in 2014. Results in the fourth quarter of 2015 reflected increased production and shipment volumes as well as higher energy revenues, which largely offset slightly lower sales realizations and costs associated with the scheduled maintenance outage at the Company's Northwood pulp mill in October. The increased pulp production and energy revenue reflected improved operating rates, and, in the case of energy revenue, seasonally higher energy prices.

Pulp and paper segment results were well up from the fourth quarter of 2014 as lower unit manufacturing costs, higher pulp shipments and higher energy revenues more than offset the impact of challenging BCTMP markets in the current quarter. NBSK pulp unit sales realizations were broadly in line with the fourth quarter of 2014 as lower list prices to all regions were offset by the benefit of a significantly weaker Canadian dollar. The Northwood pulp mill completed a maintenance outage in the fourth quarter of 2015. In the comparative fourth quarter of 2014, the Northwood pulp mill also completed a scheduled maintenance outage which resulted in a reduction of market pulp production of 17,000 tonnes. Paper segment results were broadly in line with the fourth quarter of 2014 as higher sales realization as a result of the weaker Canadian dollar were offset by higher unit manufacturing costs in the current quarter mostly due to higher operating supply costs.

Markets

Global softwood pulp markets weakened somewhat through most of the fourth quarter of 2015, before stabilizing towards the end of the year. Global softwood pulp producer inventory levels remained balanced through the quarter and finished at 29 days of supply at the end of December 2015, decreasing 1 day from the end of September 2015. 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 up from both comparative periods driven primarily by increased shipments to North America and China.

Sales

The Company's pulp shipments in the fourth quarter of 2015 totalled 356,200 tonnes, up 48,800 tonnes, or 16%, from the third quarter of 2015 and up 42,200 tonnes, or 13%, from the same quarter in 2014. Higher pulp shipments in the current quarter primarily reflected increased volumes to North America and Asia. Compared to the fourth quarter of 2014, the increase in pulp shipments principally reflected higher production volumes.

The average North American US-dollar NBSK pulp list price, as published by RISI, was down US\$22 per tonne, or 2%, compared to the third quarter of 2015 with more pronounced declines seen the average European and China NBSK

prices. The average China US-dollar NBSK pulp list price was down US\$38 per tonne, or 6%, compared to the third quarter of 2015. NBSK pulp unit sales realizations were slightly lower in the current quarter reflecting these lower prices partly offset by the 2 cent, or 2%, weaker Canadian dollar. BCTMP markets remained challenged in the fourth quarter of 2015, with prices bottoming out after the downward trend seen in the third quarter of 2015. Average BCTMP prices were lower quarter-over-quarter, but the favourable impact of the weaker Canadian dollar offset most of this decline. NBSK pulp unit sales realizations were broadly in line with the fourth quarter of 2014 as lower prices to all regions were offset by the favourable impact of a 13 cent, or 15%, weaker Canadian dollar. The average North American NBSK pulp US-dollar list price was down US\$80 per tonne, or 8%, with discounts showing a moderate increase over the same period; European and China NBSK pulp prices showed more pronounced decreases of US\$118 and US\$115 per tonne, respectively.

Energy revenues were well up from both comparative periods, and for the most part reflected increased power generation and seasonally higher energy prices. Compared to the same quarter in 2014, higher energy revenue also reflected the incremental contribution from the Intercontinental pulp mill turbine which started selling power in April 2015.

Paper unit sales realizations in the fourth quarter of 2015 were down slightly compared to the previous quarter, reflecting lower market prices and proportionately lower shipments to North America partly offset by the weaker Canadian dollar. Compared to the fourth quarter of 2014, paper unit sales realizations were moderately higher reflecting the favourable impact of the weaker Canadian dollar and slightly higher shipments of prime product, which more than offset lower market prices to all regions.

Operations

Pulp production in the current quarter was 322,500 tonnes, up 12,000 tonnes, or 4%, from the third quarter of 2015 and up 26,800 tonnes, or 9%, from the same quarter in 2014. Production in the current quarter reflected higher operating rates and additional operating days offset by the scheduled maintenance outage at the Northwood Pulp Mill which reduced market pulp production of 20,000 tonnes in October and 6,000 tonnes in the previous quarter. The increase in pulp production compared to the fourth quarter of 2014 reflected the additional operating days and improved productivity. Production in the fourth quarter of 2014 was also impacted by a scheduled maintenance outage at the Northwood pulp mill which reduced market pulp production by 17,000 tonnes.

Overall pulp unit manufacturing costs were slightly higher than the third quarter of 2015 largely reflecting costs associated with the scheduled Northwood maintenance outage and seasonally higher energy costs, offset by lower fibre costs, related mostly to seasonal and market factors, and improved productivity in the current quarter. Compared to the fourth quarter of 2014, unit manufacturing costs decreased reflecting lower natural gas prices. NBSK pulp fibre costs were broadly in line with the fourth quarter of 2014 as slightly higher delivered costs for sawmill residual chips (linked to Canadian dollar NBSK pulp sales realizations) were offset by a decline in the proportion of higher-cost whole log chips in the current quarter.

Paper production for the fourth quarter of 2015 was 35,800 tonnes, up 1,200 tonnes, or 3%, from the previous quarter, reflecting additional operating days in the current period, and broadly in line with the same quarter in 2014. Unit manufacturing costs were relatively consistent with the previous quarter and moderately higher than the fourth quarter of 2014 reflecting higher operating supply costs partly offset by lower costs for slush pulp.

Unallocated and Other Items

(millions of Canadian dollars)	Q4 2015	Q3 2015	Q4 2014
Operating loss of Panels operations ³⁷	\$ (0.6)	\$ (1.5)	\$ (0.8)
Corporate costs	\$ (9.9)	\$ (5.4)	\$ (7.2)
Finance expense, net	\$ (7.6)	\$ (6.4)	\$ (4.6)
Foreign exchange loss on long-term debt	\$ (5.9)	\$ -	\$ -
Gain (loss) on derivative financial instruments	\$ 2.1	\$ (14.9)	\$ (7.4)
Other income, net	\$ 3.5	\$ 10.1	\$ 3.1

³⁷ The Panels operations include the Company's PolarBoard OSB plant, which is currently indefinitely idled and its Tackama plywood plant, which was closed in January 2012.

Corporate costs were \$9.9 million for the fourth quarter of 2015, up \$4.5 million from the previous quarter primarily reflecting increased acquisition and SLA related legal costs and increased share based compensation expense recorded in the fourth quarter. Compared to the fourth quarter of 2014, corporate costs increased \$2.7 million partly reflecting legal costs associated with the Company's recent acquisitions in the US South.

Net finance expense at \$7.6 million for the fourth quarter of 2015 was up \$1.2 million from the previous quarter and up \$3.0 million from the fourth quarter of 2014. The increase reflected higher net interest expense associated with higher debt levels resulting from the US-dollar term debt financing completed at the beginning of the fourth quarter. In the fourth quarter of 2015, the Company recognized a foreign exchange loss associated with its US-dollar term debt financing completed in October (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 fourth quarter of 2015, the Company recorded a net gain of \$2.1 million related to its derivatives instruments, principally reflecting realized gains on lumber futures contracts settled during the quarter.

Other income, net of \$3.5 million in the fourth quarter of 2015 principally reflected foreign exchange gains on US dollar denominated working capital resulting from the weakening of the Canadian dollar relative to the US dollar over the course of the quarter.

Other Comprehensive Income (Loss)

(millions of Canadian dollars)	Q4 2015	Q3 2015	Q4 2014
Foreign exchange translation differences for foreign operations, net of tax	\$ 15.5	\$ 29.2	\$ 10.9
Defined benefit actuarial gains (losses), net of tax	(2.0)	9.9	(46.4)
Other comprehensive income (loss), net of tax	\$ 13.5	\$ 39.1	\$ (35.5)

In the fourth quarter of 2015, the Company recorded an after-tax loss of \$2.0 million related to changes in the valuation of the Company's employee future benefit plans. The loss reflected unfavorable actuarial experience adjustments in both the non-pension and pension plans, and a return on plan assets lower than the discount rate in the pension plans, offset in part by a reduction in medical claims cost assumptions in the non-pension post-employment plans. An after tax gain of \$9.9 million was recorded in the previous quarter reflecting higher discount rates used to value the net defined benefit obligation in part offset by a lower than expected return on plan assets. An after tax loss of \$46.4 million was recorded in the fourth quarter of 2014 principally reflecting a lower discount rate used to value the net defined benefit obligation and actuarial experience adjustments related to certain defined benefit pension plans, offset in part by a return on plan assets. For more information, see the "Employee Future Benefits" part of the "Critical Accounting Estimates" section later in this report.

In addition, the Company recorded a gain of \$15.5 million in the fourth quarter of 2015 related to foreign exchange differences for foreign operations, resulting from the weakening of the Canadian dollar relative to the US dollar in 2015. This compared to a gain of \$29.2 million in the previous quarter and a gain of \$10.9 million in the fourth quarter of 2014 also due to a weakening of the Canadian dollar relative to the US counterpart.

CHANGES IN FINANCIAL POSITION

At the end of 2015, Canfor had \$97.5 million of cash and cash equivalents.

(millions of Canadian dollars)	Q4 2015	Q3 2015	Q4 2014
Cash generated from (used in)			
Operating activities	\$ 34.8	\$ 59.9	\$ 112.9
Financing activities	183.5	(44.6)	(7.2)
Investing activities	(210.7)	(74.6)	(97.6)
Increase (decrease) in cash and cash equivalents, before foreign exchange gain on cash and cash equivalents	\$ 7.6	\$ (59.3)	\$ 8.1

The changes in the components of these cash flows are discussed in the following sections.

Operating Activities

Canfor generated cash from operations of \$34.8 million in the fourth quarter of 2015, down \$25.1 million compared to the previous quarter reflecting a build in non-cash working capital balances, offset in part by higher cash earnings in the current quarter, and higher income tax payments in the previous quarter. The increase in non-cash working capital in part reflected increased shipments towards the end of the year and the impact of the weaker Canadian dollar on translation of US-dollar denominated accounts receivables balances and seasonally higher log inventory levels, offset in part by lower finished pulp inventory levels.

Compared to the fourth quarter of 2014, operating cash flows were down \$78.1 million reflecting a decrease in cash earnings and a build in non-cash working capital balances. The increase in non-cash working capital in part reflected increased shipments towards the end of the year and the impact of the weaker Canadian dollar on translation of US-dollar denominated accounts receivables balances, as well as higher log inventory levels reflecting favourable logging and hauling weather conditions in Western Canada.

Financing Activities

Financing activities in the fourth quarter of 2015 provided net cash of \$183.5 million compared to net cash used of \$44.6 million in the previous quarter and \$7.2 million in the fourth quarter of 2014. In a refinancing of its Canadian dollar denominated term debt, the Company reduced its term debt by \$50.0 million in the third quarter of 2015 ahead of US\$200.0 million in financings that closed in the fourth quarter of 2015 (see "Liquidity and Financial Requirements" section for more details). In the fourth quarter of 2014, the Company completed a \$75.0 million floating rate term debt financing for the construction of the pellet plants in Fort St. John and Chetwynd and repaid a portion of its operating loan facility. At the end of the fourth quarter of 2015, the Company had a consolidated amount of \$158.0 million drawn on its operating loan facilities, down \$43.0 million compared to the previous quarter and up \$90.0 million compared to the fourth quarter of 2014.

During the current quarter, the Company made cash distributions of \$4.0 million to non-controlling shareholders, down \$39.1 million from the previous quarter, principally reflecting distributions made to the non-controlling shareholders of CPPI for a special dividend that was declared and paid in the third quarter of 2015, and in line with cash distributions paid in the fourth quarter of 2014.

Cash used for financing activities also included share purchases under Canfor's and CPPI's Normal Course Issuer Bids. During the fourth quarter of 2015, Canfor purchased 1,050,120 common shares for \$20.0 million and CPPI purchased 692,985 common shares from non-controlling shareholders for \$9.7 million. Canfor did not purchase any common shares in the comparative quarters, while CPPI purchased 557,401 common shares for \$6.7 million in the third quarter of 2015. See further discussion of the shares purchased under the Normal Course Issuer Bid in the following "Financial Requirements and Liquidity" section.

Investing Activities

Cash used for investing activities was \$210.7 million in the current quarter, compared to \$74.6 million in the previous quarter and \$97.6 million in the same quarter of 2014. Cash used for capital additions was \$83.7 million, up \$22.6 million from the previous quarter and up \$29.0 million in the fourth quarter of 2015. Current quarter capital expenditures included construction costs related to the Company's pellet plants in Chetwynd and Fort St. John,

smaller capital projects at both the SYP and Western SPF lumber operations, and the acquisition of a forest license in the Kootenay region of Western Canada. In the pulp and paper segment, capital expenditures primarily related to the schedule maintenance outage at the Northwood NBSK pulp mill.

Investing activities in the current quarter also included cash consideration paid, net of cash acquired, of \$123.9 million related to the purchase of Anthony Forest Products.

SPECIFIC ITEMS AFFECTING COMPARABILITY

Specific Items Affecting Comparability of Shareholder Net Income (Loss)

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)	Q4 2015	Q3 2015	Q2 2015	Q1 2015	Q4 2014	Q3 2014	Q2 2014	Q1 2014
Shareholder net income (loss), as reported	\$ 1.6	\$ (17.3)	\$ 11.1	\$ 29.3	\$ 29.9	\$ 45.5	\$ 54.3	\$ 45.5
(Gain) loss on derivative financial instruments	\$ (1.2)	\$ 9.3	\$ (7.7)	\$ 17.2	\$ 5.2	\$ 0.7	\$ (2.1)	\$ 2.1
Foreign exchange loss on long-term debt	\$ 5.1	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
One-time costs associated with pension plan legislation changes	\$ 2.4	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Mill closure provisions ³⁸	\$ -	\$ 14.4	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Gain on investment in Lakeland Mills Ltd. and Winton Global Lumber Ltd. ³⁹	\$ -	\$ -	\$ (6.1)	\$ -	\$ -	\$ -	\$ -	\$ -
Mark-to-market loss on Taylor pulp contingent consideration, net ⁴⁰	\$ -	\$ -	\$ 0.7	\$ -	\$ -	\$ -	\$ -	\$ -
Mark-to-market adjustment to Canfor-LP OSB sale contingent consideration	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4.5	\$ 4.5	\$ 0.4
Gain on sale of Daaquam operation	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (1.6)
Net impact of above items	\$ 6.3	\$ 23.7	\$ (13.1)	\$ 17.2	\$ 5.2	\$ 5.2	\$ 2.4	\$ 0.9
Adjusted shareholder net income (loss)	\$ 7.9	\$ 6.4	\$ (2.0)	\$ 46.5	\$ 35.1	\$ 50.7	\$ 56.7	\$ 46.4
Shareholder net income (loss) per share (EPS), as reported	\$ 0.01	\$ (0.13)	\$ 0.08	\$ 0.22	\$ 0.22	\$ 0.34	\$ 0.39	\$ 0.33
Net impact of above items per share ⁴¹	\$ 0.05	\$ 0.18	\$ (0.10)	\$ 0.13	\$ 0.04	\$ 0.04	\$ 0.02	\$ 0.01
Adjusted net income (loss) per share³⁹	\$ 0.06	\$ 0.05	\$ (0.02)	\$ 0.35	\$ 0.26	\$ 0.38	\$ 0.41	\$ 0.34

³⁸ 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

³⁹ 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).

⁴⁰ 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.

⁴¹ 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.

OUTLOOK

Lumber Markets

Looking ahead, the Company is projected to benefit from the continued weakening of the 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 through the first quarter of 2016. Offshore lumber shipments are projected to be stable with relatively steady volume forecast to both China and Japan over the same period.

Pulp and Paper Markets

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 second quarter of 2016, producer inventories are forecast to decline during the industry's traditional spring maintenance period.

The Company has no maintenance outages planned for the first quarter of 2016. Maintenance outages are currently planned at the Northwood and Intercontinental Mills in the second quarter of 2016 with a projected 30,000 tonnes of reduced production and at the Prince George Mill in the third quarter of 2016 with a projected 4,000 tonnes of reduced production. A maintenance outage at the Taylor pulp mill is scheduled for the fourth quarter of 2016 with a projected 7,000 tonnes of reduced production.

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with International Financial Reporting Standards ("IFRS") requires management to make estimates and assumptions that affect the amounts recorded in the financial statements. Management regularly reviews these estimates and assumptions based on 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 Canfor's financial position. Unless otherwise indicated the critical accounting estimates discussed affect all of the Company's reportable segments.

Employee Future Benefits

Canfor has various defined benefit and defined contribution plans providing both pension and other retirement benefits to most of its salaried employees and certain hourly employees not covered by forest industry union plans. Canfor also provides certain health care benefits and pension bridging benefits to eligible retired employees. The costs and related obligations of the pension and other retirement benefit plans are accrued in accordance with the requirements of IFRS.

Canfor uses independent actuarial firms to perform actuarial valuations of the fair value of pension and other retirement benefit plan obligations. The application of IFRS requires judgments regarding certain assumptions that affect the accrued benefit provisions and related expenses, including the discount rate used to calculate the present value of the obligations, the rate of compensation increase, mortality assumptions, and the assumed health care cost trend rates. Management evaluates these assumptions annually based on experience and the recommendations of its actuarial firms. Changes in these assumptions result in actuarial gains or losses, which are recognized in full in each period with an adjustment through Other Comprehensive Income (Loss).

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

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

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

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

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

See "Liquidity and Financial Requirements" section for further discussion regarding the funding position of Canfor's pension plans.

Deferred Reforestation

Canfor accrues an estimate of its future liability to perform forestry activities, defined to mean those silviculture treatments or activities that are carried out to ensure the establishment of a free-growing stand of young trees, including logging road rehabilitation on its forestry tenures in BC and Alberta. An estimate is recorded in the financial statements based on the number of hectares of timber harvested in the period and the estimated costs of fulfilling Canfor's obligation. Payments in relation to reforestation are expected to occur over periods of up to 15 years (the significant majority occurring in the first seven years) and have been discounted accordingly at risk-free rates ranging from 0.5% to 2.1%. The actual costs that will be incurred in the future may vary based on, among other things, the actual costs at the time of silviculture activities.

Deferred Taxes

In accordance with IFRS, Canfor recognizes deferred income tax assets when it is probable that the deferred income tax assets will be realized. This assumption is based on management's best estimate of future circumstances and events. If these estimates and assumptions are changed in the future, the value of the deferred income tax assets could be reduced or increased, resulting in an income tax expense or recovery. Canfor reevaluates its deferred income tax assets on a regular basis.

Asset Retirement Obligations

Canfor records the estimated fair value of a liability for asset retirement obligations, such as landfill closures, in the period when it is incurred. For CPPI's landfill closure costs, the fair value is determined using estimated closure costs discounted over the estimated useful life. Payments relating to landfill closure costs are expected to occur at periods ranging from 7 to 36 years and have been discounted at risk-free rates ranging from 1.0% to 2.2%. The actual closure costs and periods of payment may differ from the estimates used in determining the year end liability. On initial recognition, the fair value of the liability is added to the carrying amount of the associated asset and amortized over its useful life. The liability is accreted over time through charges to earnings and reduced by actual costs of settlement.

Environmental Remediation Costs

Costs associated with environmental remediation obligations are accrued and expensed when there exists a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Such accruals are adjusted as further information develops or circumstances change. Costs of future expenditures for environmental remediation obligations are discounted to their present value when the amount and timing of expected cash payments are reliably determinable.

Impairment of Goodwill

Goodwill, which is the excess of the cost of an acquisition over the fair value of the net identifiable assets acquired, is not amortized but is assessed annually for impairment or more frequently if events or circumstances indicate that it may be impaired.

An impairment loss is recognized in net income at the amount that the carrying value, including goodwill, of the relevant operating division exceeds its recoverable amount. The recoverable amount is the higher of the unit's fair

value less costs to sell and value in use. For Canfor's goodwill (which is allocated to the lumber segment), the fair value of the relevant assets is determined by estimating the future expected discounted cash flows of the unit as a whole on an annual basis, and more often if required. As part of this process, assumptions are made in relation to forecast product prices and exchange rates. Price forecasts are determined with reference to Forest Economic Advisors ("FEA") publications and management estimates. Other significant assumptions include the discount rate. The net present value of the future expected cash flows, which approximates fair value, is compared to the carrying value of the Company's investment in these assets, including goodwill, at year end.

Based upon the analysis performed in 2015 the net present value of the estimated future discounted cash flows exceeded the value of the investment, and therefore no impairments to goodwill were required. However, if the US and global economic recovery were to be longer than anticipated in the forecast assumptions, there is a possibility that an impairment of goodwill may be required in future periods.

Valuation of Log and Finished Product Inventories

Log and finished product inventories are recorded at the lower of cost and net realizable value. For inventories of solid wood products, the net realizable value is determined by taking into account forecast prices and exchange rates for the period over which the inventories are expected to be sold. Forecast prices are determined using management's estimates as at the year end, and may differ from the actual prices at which the inventories are sold. Inventory write-downs at December 31, 2015 totaled \$0.5 million.

Allowance for Doubtful Accounts

An allowance for doubtful accounts of \$4.5 million has been recorded at December 31, 2015 which reflects management's assessment of risks attached to the collection of receivable balances. While significant bad debts have not been experienced in prior years, the provision is considered appropriate due to several risks still existing which may affect the ability of certain customers to pay amounts owed to the Company.

FUTURE CHANGES IN ACCOUNTING POLICIES

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.

RISKS AND UNCERTAINTIES

Risks and uncertainties fall into the general business areas of markets, international commodity prices, competition, currency exchange rates, environmental issues, forest land base, government regulations, public policy and labour disputes, and, for Canadian companies, a history of trade disputes and issues and Aboriginal land claims. The future impact of the various uncertainties and potential risks described in the following paragraphs (together with the risks and uncertainties identified under each of the Company's business segments) cannot be quantified or predicted with certainty. However, Canfor does not foresee unmanageable adverse effects on its business operations from, and believes that it is well positioned to deal with, such matters as may arise. The risks and uncertainties are set out in alphabetical order.

Aboriginal Issues

Canadian judicial decisions have recognized the continued existence of Aboriginal rights and title to lands continuously and exclusively used or occupied by Aboriginal groups. In June 2014, the Supreme Court of Canada, for the first time, recognized Aboriginal title for the Tsilhqot'in Nation over approximately 1,750 square kilometres of land in central BC ("William decision"). It found that provisions of BC's Forest Act, dealing with the disposition or harvest of Crown timber, no longer applied to timber located on these lands, but also confirmed provincial law can apply on Aboriginal title lands.

While Aboriginal title had previously been assumed to exist over specific, intensively occupied areas such as villages, the William decision marks the first time Canada's highest court has recognized Aboriginal title over a specific piece of land and, in so doing, affirmed a broader territorial use-based approach to Aboriginal title. The decision also further defines what Aboriginal title means and the types of land uses consistent with this form of collective ownership.

Presently, Aboriginal title has not been established by law in any areas overlapping Canfor's tenure areas; however, Aboriginal rights continue to exist over traditional territories, and Canfor cannot assure that this will not affect its timber harvesting rights. Forest harvesting operations are continuing to proceed under these current requirements. The Government of BC delegates procedural aspects of consultation to tenure holders, including Canfor, and Canfor works to establish productive and mutually beneficial relationships with First Nations whose traditional territories overlap Canfor operating areas. The Government of BC has also taken steps to improve certainty and access to timber resources through interim agreements with First Nations that include timber rights. Canfor holds numerous agreements with individual First Nations whereby it manages and/or purchases their timber.

The impacts of the William decision on the timber supply from Crown lands and on Canfor's operations is unknown at this time; and Canfor does not know if the decision will lead to changes in BC laws or policies. However, as issues relating to Aboriginal rights and title continue to develop and be resolved in Canadian courts, Canfor will continue to engage, cooperate and exchange information and views with First Nations and Government to foster good relationships and minimize risks to Canfor's tenures and operational plans.

Capital Requirements

The lumber products industry is capital intensive, and the Company regularly incurs capital expenditures to expand its operations, maintain its equipment, increase its operating efficiency and comply with environmental laws. The Company's total capital expenditures during 2015 were approximately \$240.0 million. The Company anticipates available cash resources and cash generated from operations will be sufficient to fund its operating needs and capital expenditures.

Employee Future Benefits

Canfor has several defined benefit plans, which provide pension and other post-retirement benefits to certain salaried and hourly employees. Pension plan benefits are based on years of service and final average salary (for salaried employees), and flat rate benefit and years of service (for hourly employees). Canfor's other post-retirement benefit plans are non-contributory and include a range of health care and other benefits. Canfor also provides pension bridge benefits to certain eligible former employees.

Cash payments required to fund the pension plan are determined by actuarial valuation completed at least once every three years, with the most recent actuarial valuation for the largest plan completed as of December 31, 2013. Other post-retirement benefit plans are unfunded, and the Company makes payments as required to cover liabilities as they arise.

The funded surplus (deficit) of each defined benefit plan is calculated as the difference between the value of any plan assets and an actuarial estimate of future liabilities. Any deficit in the registered pension plans determined following an actuarial valuation must be funded in accordance with regulatory requirements, normally over 5 or 15 years. Some of the unregistered plans are also partially funded.

Through its pension funding requirements, Canfor is exposed to the risk of fluctuating market values for the securities making up the plan assets, and to changes in prevailing interest rates which determine the discount rate used in calculating the estimated future liabilities. The funding requirements may also change to the extent that other assumptions used are revised, such as inflation rates or mortality assumptions.

For Canfor's pension benefit plans, a one percentage point increase in the discount rate used in calculating the actuarial estimate of future liabilities would reduce the accrued benefit obligation by an estimated \$81.6 million and a one percentage point decrease in the discount rate would increase the accrued benefit obligation by an estimated \$102.1 million. These changes would only impact the Company's funding requirements in years where a new actuarial funding valuation was performed and regulatory approval for a change in funding contributions was obtained.

Environmental Issues

Canfor's operations are subject to environmental regulation by federal, provincial, state and local authorities, including specific environmental regulations relating to air emissions and pollutants, wastewater (effluent) discharges, solid waste, landfill operations, forestry practices, site remediation and the protection of endangered species and critical habitat. Canfor has incurred, and will continue to incur, capital expenditures and operating costs to comply with environmental laws and regulations. No assurance can be given that changes in these laws and regulations or their application will not have a material adverse effect on Canfor's business, operations, financial condition and operational results. Similarly, no assurance can be given that capital expenditures necessary for future compliance with existing and new environmental laws and regulations could be financed from Canfor's available cash flow. In addition, Canfor may discover currently unknown environmental issues, contamination, or conditions relating to its past or present operations. This may require site or other remediation costs to maintain compliance or correct violations or result in governmental or private claims for damage to person, property or the environment, which could have a material adverse effect on Canfor's business, financial condition and operational results.

Canfor has systems in place to identify, account for and appropriately address potential environmental liabilities. The Company also has governance in place including an Environmental, Health and Safety Committee of the Board, a Corporate Environmental Management Committee including Officers of the Company, and environmental professionals on staff to manage potential risks, issues and liabilities.

Canfor has in place internal policies and procedures under which all its forestry and manufacturing operations are regularly audited for compliance with laws and accepted standards and with its management system requirements. Canfor's woodlands operations employ environmental management systems following the ISO 14001 Environmental Management System Standard. Further, approximately 100% of Canfor's forest tenures in Canada are third-party certified to the Canadian Standards Association ("CSA"), the Forest Stewardship Council ("FSC") or the Sustainable Forestry Initiative ("SFI") sustainable forest management standards. Canfor's operations and its ability to sell its products could be adversely affected if those operations did not, or were perceived by the public as failing to, comply with applicable laws and standards, including responsible environmental and sustainable forestry standards.

On November 25, 2009, the BC Ministry of Environment released the greenhouse gas ("GHG") reporting regulations under the Greenhouse Gas Reduction Act, requiring any facilities emitting more than 10,000 tonnes of CO₂e to report 2010 emissions in 2011. In 2015, one of Canfor's sawmills and all of the CPPI pulp mills reported GHG emissions under the BC GHG reporting regulation. GHG emission reporting has been required federally and in Alberta for several years with CPPI's facilities meeting the requirements for federal reporting, though Canfor's wood products facilities have not triggered federal or Alberta reporting thresholds. Under the US Environmental Protection Agency Federal GHG Reporting Rule, facilities emitting more than 25,000 tonnes of CO₂e are required to report on their GHG emissions. Canfor's USA facility direct GHG emissions are sufficiently low that they do not trigger the reporting requirement. Carbon policy at federal and provincial levels is under active review and development prior to and following the December 2015 COP21 conference in Paris. The federal government remains committed to a 30% reduction in 2005 levels by 2030 and support the 1.5 degree C global temperature increase threshold. In B.C. the Climate Leadership Team in November 2015 submitted its report and recommendations to government with public consultation beginning in January 2016 towards release of a New Climate Leadership Plan in spring 2016. The 32 recommendations include potential increases in the existing BC carbon tax but also that the impacts of the increase be mitigated for energy intensive trade exposed industries. Alberta is developing a new strategy on climate change based on November 2015 recommendations put forward by the Alberta Climate Change Advisory Panel. Future Alberta strategy includes phase out of coal based power generation by 2030 and could include a broad based carbon tax. Canfor's BC and Alberta sawmill and biomass cogeneration facility GHG emissions are all well below any foreseeable Regulation thresholds.

At the federal level Environment Canada continues to indicate that the pulp and paper sector will be included in its GHG Regulatory system, currently under development. Canfor Pulp's three Prince George pulp mills are well positioned having already substantially reduced GHG emissions through energy efficiency measures and switching from fossil to carbon dioxide emission neutral biomass fuels.

In the United States carbon policy at the federal and state levels is also uncertain however direct GHG emissions from Canfor's US sawmills are very low, due to the use of biomass fuels for heat energy. The mills are exposed to potential pass through of future electrical utility GHG emission reduction requirements related to electricity purchases.

Canfor is a participant in the carbon offset market in Alberta and British Columbia, selling offset credits tied to its biomass cogeneration facility in Grande Prairie and from biomass heat energy projects recently completed at several mills in BC.

Fibre Cost and Availability

The Company's fibre costs are affected by a number of different factors which could have a significant impact on operating results. Lumber market fluctuations and log market speculative bidding can also have a significant impact on both fibre supply and costs. In the interior of BC, the majority of the Company's tenure harvesting continues to advance to the north in an effort to maximize the salvage of pine impacted by the Mountain Pine Beetle epidemic. In other areas where the amount of pine left to be salvaged has significantly declined, tenure harvesting is transitioning back to traditional harvesting patterns and areas. While this has the added benefit of improving the quality of fibre, it also increases transportation, road construction and reforestation costs. These factors also contribute to higher log costs and are anticipated to provide upward pressure on the Company's log costs for the foreseeable future. In addition, the Company's ability to harvest fibre for use in its operations could be adversely impacted by natural events such as forest fires, severe weather conditions or insect infestations. In the event that sufficient volumes of economically viable fibre cannot be provided to an operation, it may be necessary to close that operation for a period of time, or even permanently. Such closures could result in significant costs to the Company. The Company is not insured for loss of standing timber. Canfor has secured its fibre position in Western Canada relative to its existing sawmills and no shortage of supply is anticipated at this time.

Financial Risk Management and Earnings Sensitivities

Demand for forest products, both wood products and pulp and paper, is closely related to global business conditions and tends to be cyclical in nature. Product prices can be subject to volatile change. Canfor, like the majority of the Canadian forest products industry, competes in a global market and the majority of its products are sold in US dollars. Consequently, changes in foreign currency relative to the Canadian dollar can impact Canfor's revenues and earnings.

Financial Risk Management

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

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

(a) Credit risk:

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

Financial instruments that are subject to credit risk include cash and cash equivalents, accounts receivable, and long-term investments. Cash and cash equivalents includes cash held through major Canadian and international financial institutions as well as temporary investments with an original maturity date of three months or less.

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

(b) Liquidity risk:

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

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

(c) Market risk:

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

(i) Interest Rate risk:

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

Canfor utilizes interest rate swaps to reduce its exposure to interest rate risk associated with financial obligations bearing variable interest rates (see "Derivative Financial Instruments" section later in this document).

As noted earlier in this section (under "Employee Future Benefits"), Canfor is also exposed to interest rate risk in relation to the measurement of the Company's pension liabilities.

(ii) Currency risk:

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

A portion of the currency risk associated with US dollar denominated sales is naturally offset by US dollar denominated expenses. Part of the remaining exposure is at times covered by foreign exchange collars that effectively limit the minimum and maximum Canadian dollar recovery related to the sale of those US dollars (see "Derivative Financial Instruments" section later in this document).

(iii) Commodity price risk:

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

(iv) Energy price risk:

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

The exposure may be hedged up to 100% through the use of floating to fixed swap contracts or option contracts with maturity dates up to a maximum of three years. In the case of diesel, Canfor uses Brent oil and WTI oil contracts to hedge its exposure (see "Derivative Financial Instruments" section later in this document).

Derivative Financial Instruments

Subject to risk management policies approved by its Board of Directors, Canfor, from time to time, uses derivative instruments, such as forward exchange contracts and option contracts to hedge future movements of exchange rates and interest rates and futures and forward contracts to hedge commodity prices and energy costs. See section "Financial Requirements and Liquidity" for details of Canfor's derivative financial instruments outstanding at year end.

Earnings Sensitivities

Estimates of the sensitivity of Canfor's pre-tax results to currency fluctuations and prices for its principal products, based on 2016 Business Plan forecast production and year end foreign exchange rates, are set out in the following table:

(millions of Canadian dollars)	Impact on annual pre-tax earnings
SPF lumber – US\$10 change per Mfbm ^{42, 43}	\$ 46
SYP lumber – US\$10 change per Mfbm ^{42, 43}	\$ 16
Pulp – US\$10 change per tonne ^{42, 43, 44}	\$ 12
Canadian dollar – US\$0.01 change per Canadian dollar ^{44, 45}	\$ 10

⁴² Based on sales of Canfor-produced product, including 100% of the production from Scotch Gulf and Beadles & Balfour and excluding results of Anthony.

⁴³ Excluding impacts of exchange rate, freight, discounting, potential change in fibre costs and other deductions.

⁴⁴ Includes 100% of CPPI.

⁴⁵ Represents impact on operating income. Decrease of US\$0.01 per Canadian dollar results in an increase to pre-tax annual earnings and an increase of US\$0.01 per Canadian dollar results in a decrease to pre-tax annual earnings.

Government and Other Regulations

Canfor is subject to a wide range of general and industry-specific environmental, health and safety, building and product standards and other laws and regulations imposed by federal, provincial and local authorities, including those governing the use, storage, handling, generation, treatment, emission, release, discharge and disposal of certain hazardous materials and wastes, the remediation of contaminated soil and ground water, the use and design values of Canfor's products and the health and safety of employees. Further, certain agreements and contracts relating to the ownership or transfer of forestry tenures and licenses are subject to review by applicable regulatory bodies. If Canfor is unable to extend or renew a material license or permit required by such laws, any transfer is challenged by a regulatory body, or if there is a delay in renewing any material approval, license or permit, Canfor's business, financial condition, results of operations and cash flows could be materially adversely affected. Future events such as any changes in these laws and regulations or any change in their interpretation or enforcement, or the discovery of currently unknown conditions, may give rise to additional expenditures or liabilities.

Labour Agreements and Competition for Professional Skilled Labour

Canfor ratified new five year collective agreements with the USW (United Steelworkers) in late 2013, with terms expiring on June 30, 2018. The Company's collective agreement with the PPWC (Pulp, Paper and Woodworkers of Canada) at its Mackenzie lumber operation was extended until June 2019 under the same terms and conditions of the USW collective agreement ratified in June 2013. Canfor's collective agreement with Unifor for its Grande Prairie lumber operation was ratified in late 2014 and expires September 30, 2017. In addition, CPPI's collective agreements with the CEP and PPWC have terms expiring on April 30, 2017. Any inability to negotiate acceptable contracts with the unions as they expire could result in a strike or work stoppage by the affected workers and increased operating costs as a result of higher wages or benefits paid to unionized workers.

Market conditions may cause shortages of both professional and skilled labour, which could have an adverse impact on the operation and management of Canfor's facilities.

Maintenance Obligations and Facility Disruptions

Canfor's manufacturing processes are vulnerable to operational problems that could impair its ability to manufacture its products. Canfor could experience a breakdown in any of its machines, or other important equipment, and from time to time, planned or unplanned maintenance outages that cannot be performed safely or efficiently during operations must be conducted. Such disruptions could cause a significant loss of production, which could have a material adverse effect on Canfor's business, financial condition and operating results.

Mountain Pine Beetle

As noted earlier in this document (Section (iv) of the Overview of 2015), timber affected by the Mountain Pine Beetle remained the focus for Canfor harvesting activities in BC as it has been for the past decade and will continue to be in 2016 for many of the operations. To ensure that sufficient dead pine is being harvested to sustain the current allowable harvest rates and minimize impacts to the mid-term timber supply, the British Columbia Provincial Government has instituted "partitions" in a number of timber supply areas. These partitions cap the harvest of non-pine species in the short-term, and will be revisited as the availability of merchantable dead pine stands declines.

This is currently the case within the Prince George and Morice Timber Supply Areas. The Company maintains a significant focus on salvage harvesting and achieving these partitions where applicable.

The focus on salvage harvesting and achievement of required harvest partitions will have an upward pressure on harvesting costs, as a result of smaller piece sizes, lower volumes per hectare and increasing haul distances. These will be offset somewhat by the transition to green or mixed stands (lower cost and/or higher quality) in some areas as partitions start to be removed or become less constraining and by uplifted harvest levels in others. The impact of the infestation on Canfor's operations continues to be manageable in the short-term and the Company has taken steps to minimize its exposure to reductions in annual allowable harvests and to ensure a sufficient supply for its existing operations.

In Alberta, as a result of proactive industry and government efforts, the Mountain Pine Beetle infestation is still significantly less wide-spread than was experienced through the BC Interior. Detection surveys in 2015 have indicated a declining rate of spread in many areas. The largest and most successful beetle populations are found in the West Central and Northwestern parts of the Province, particularly within the Jasper National Park boundary. An accelerated harvest of susceptible pine on the Canfor FMA area since 2009 in conjunction with government control efforts, has helped contain the spread in this area. On the other hand, pine mortality in areas north of the Peace River, including the Canfor quota area, has been extensive and harvesting objectives are now focused on salvage rather than spread prevention. The significant AAC increase approved for the quota area has maximized the opportunity to harvest infected pine stands before significant reduction in log quality occurs. In addition, the Alberta government has committed funds for the rehabilitation of dead pine stands that have not been harvested due to merchantability limitations. In 2014 Canfor initiated a project on the FMA area under the MPB Rehabilitation Program that resulted in the reforestation of approximately 312 hectares of infested area. This program is continuing in 2016 with treatment and reforestation of an additional 33 hectares. The project includes a significant research component that will help forest practitioners determine optimal rehabilitation treatments in MPB killed stands that have not been subject to commercial harvesting.

Residual Fibre Revenues

Wood chips are a residual product of Canfor's lumber manufacturing process and are primarily sold to CPPI. These chips are the principal raw material utilized by CPPI in its pulp manufacturing operations. Canfor has a Chip Supply Agreement with CPPI, which contains a pricing formula that currently results in CPPI paying Canfor a price for wood chips based on pulp markets and CPPI's product mix. In 2015, Canfor provided approximately 61% of CPPI's chip requirements. If market conditions caused CPPI to cease pulp operations for an extended period of time, Canfor would have a limited market for its chip supply and this could affect its ability to run its sawmills economically. Similarly, if lumber market conditions were such that Canfor is unable to provide the current volume of chips to CPPI as a result of sawmill closures, whether temporary or permanent, CPPI's financial results could be materially affected.

Bark hog is a residual product of Canfor's lumber manufacturing process. Bark hog has exhibited increasing value to Canfor over the past several years. It is utilized in Canfor's bark-fueled thermal oil energy systems to dry lumber and is sold predominately to Pulp customers, including CPPI, to be used in the generation of steam to manufacture power and heat.

Currently, sales of sawdust and shavings are made primarily to other customers and the demand is increasing and robust. To enhance fibre utilization in northern BC, Canfor has completed the construction of a pellet plant in Chetwynd, and is completing the construction of a pellet plant in Fort St. John.

Softwood Lumber Agreement

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 significant 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.

Stumpage Rates

The BC government introduced a Market Pricing System ("MPS") for the BC Interior on July 1, 2006. On July 1, 2010 the Ministry of Forests and Range (the "Ministry") implemented changes to the interior market pricing system for timber, and from a stumpage distribution perspective, transitioned over two years to a system more sensitive to market forces such as lumber market pricing and competition for supply of logs through the BC Timber Sales (BCTS) program, both of which could have a material impact on stumpage rates and Canfor's business. These changes dealt with issues raised by the MPB epidemic and included the introduction of "stand-as-a-whole" pricing with cruise-based billing for MPB damaged timber. For stands with 35% or more MPB damaged timber a single stumpage rate is established with billing based on the cruise rather than scaling. For these stands, determination of log grades is not necessary. Intended impacts of these changes is increased overall market sensitivity of interior timber pricing and improved utilization of low value material.

Canfor is actively participating in discussions on MPS with the Ministry, which is scheduled for its tenth annual update on July 1, 2016. Canfor will continue to seek to manage and reduce the stumpage costs for its BC Interior operations under the stumpage appraisal system. The near-term imperative is to ensure that the stumpage system accurately reflects the market value of timber and various operating conditions, is responsive to the deteriorating quality of the beetle-impacted fibre, and is based upon an adequate supply of BCTS sales that accurately represents market level activity. Further changes to the BC Interior market driven stumpage system and resultant stumpage rates could have a material impact on Canfor's business.

The Alberta government will be reviewing their provincial stumpage rates (timber dues) and a possible adjustment to the general rate of timber dues could occur sometime in 2016.

Transportation Services

Canfor relies primarily on third parties for transportation of its products, as well as delivery of raw materials, a significant portion of which are transported by railroad, trucks and ships. If any of Canfor's third party transportation providers were to fail to deliver the raw materials or products or distribute them in a timely manner, Canfor may be unable to sell those products at full value, or at all, or unable to manufacture its products in response to customer demand, which could have a material adverse effect on Canfor's financial condition and operating results. In addition, if any of these third parties were to cease operations, suffer labour-related disruptions, or cease doing business with Canfor, the Company's operations or cost structure may be adversely impacted. Transportation services may also be impacted by seasonal factors, which could impact the timely delivery of raw materials and distribution of products to customers and have a resulting material adverse impact on Canfor's financial condition and operating results. As a result of increased government regulation on truck driver work hours and rail capacity constraints access to adequate transportation capacity has at times been strained and could affect Canfor's ability to move its log, lumber and wood chips at market competitive prices.

Wood Dust Management

The wood products industry and government regulators continue to make the management of combustible wood dust within sawmill manufacturing facilities a high priority. Specifically, Canfor continues to take extensive steps to mitigate the risks of a combustible dust incident in our facilities, including significant capital investment, a formalized wood dust control program, and extensive employee training. Regulatory agencies across the Province of British Columbia, including WorkSafeBC, BC Safety Authority, and the Office of the Fire Commissioner have implemented various regulatory and inspection initiatives related to wood dust management. Additional regulatory initiatives up to and including stop work conditions within the industry have occurred, and continue to be a possibility.

OUTSTANDING SHARE DATA

At December 31, 2015 and February 17, 2016, there were 132,804,543 common shares issued and outstanding.

DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Company has established disclosure controls and procedures to ensure that information disclosed in this MD&A and the related financial statements was properly recorded, processed, summarized and reported to the Board of Directors and the Audit Committee. The Company's chief executive officer ("CEO") and chief financial officer ("CFO") have evaluated the effectiveness of these disclosure controls and procedures for the year ended December 31, 2015, and have concluded that they are effective. As of December 31, 2015, the scope of the Company's design of disclosure controls and procedures ("DC&P") and internal controls over financial reporting ("ICFR") has been limited to exclude controls, policies and procedures of the Scotch Gulf, Beadles & Balfour, Southern Lumber and Anthony businesses acquired during 2015, as we have not yet completed an evaluation of these controls and procedures nor designed and implemented any necessary changes. The Company intends to include such controls, policies and procedures within the design of DC&P and ICFR during 2016. The acquisitions accounted for 8.8% and 9.7%, respectively, of the Company's total consolidated sales and net assets in 2015. Additional information about the acquisitions is provided in Note 30 of Canfor's consolidated financial statements as at and for the year ended December 31, 2015.

The CEO and CFO acknowledge responsibility for the design of ICFR, and confirm that there were no changes in these controls that occurred during the year ended December 31, 2015 which materially affected, or are reasonably likely to materially affect, the Company's ICFR. Based upon their evaluation of these controls for the year ended December 31, 2015, the CEO and CFO have concluded that these controls are operating effectively.

Additional information about the Company, including its 2015 Annual Information Form, is available at www.sedar.com or at www.canfor.com .
