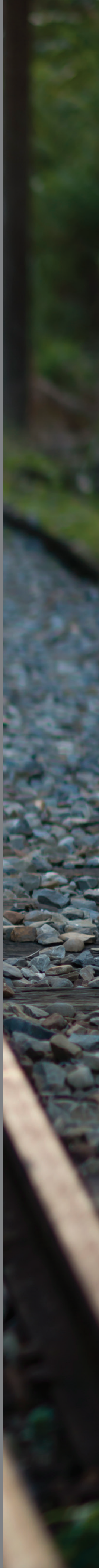
2015

CANFOR CORPORATION

QUARTER ONE INTERIM REPORT

FOR THE THREE MONTHS ENDED MAR 31, 2015



To Our Shareholders

Canfor Corporation ("CFP") reported net income attributable to shareholders ("shareholder net income") of $29.3 million, or $0.22 per share, for the first quarter of 2015, compared to $29.9 million, or $0.22 per share, for the fourth quarter of 2014 and $45.5 million, or $0.33 per share, for the first quarter of 2014.

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

(millions of Canadian dollars, except per share amounts)	Q1 2015	Q4 2014	Q1 2014
Sales	**$ 930.0**	$ 860.4	$ 741.9
Operating income before amortization	**$ 133.0**	$ 108.9	$ 128.9
Operating income	**$ 83.7**	$ 62.0	$ 84.4
Net income attributable to equity shareholders of the Company	**$ 29.3**	$ 29.9	$ 45.5
Net income per share attributable to equity shareholders of the Company, basic and diluted	**$ 0.22**	$ 0.22	$ 0.33
Adjusted shareholder net income	**$ 45.7**	$ 35.1	$ 46.4
Adjusted shareholder net income per share, basic and diluted	**$ 0.34**	$ 0.26	$ 0.34

After adjusting for items affecting comparability with the prior periods, the Company's adjusted shareholder net income for the first quarter of 2015 was $45.7 million, or $0.34 per share, compared to an adjusted shareholder net income of $35.1 million, or $0.26 per share, for the fourth quarter of 2014. Canfor's adjusted shareholder net income for the first quarter of 2014 was $46.4 million, or $0.34 per share.

The Company reported operating income of $83.7 million for the first quarter of 2015, up $21.7 million compared to operating income of $62.0 million for the fourth quarter of 2014. Current quarter results include the consolidation of the Company's recent US South acquisitions of Beadles Lumber Company Inc. & Balfour Lumber Company ("Beadles & Balfour") and Scotch & Gulf Lumber, LLC ("Scotch Gulf"), which were considered to be controlled by Canfor for accounting purposes on January 2, 2015 and January 30, 2015, respectively.

Increased operating income in the lumber segment primarily reflected the Company's recent acquisitions in the US South, and to a lesser extent, a modest increase in lumber sales realizations. With respect to productivity performance, gains at many of the Company's Western Canadian sawmill operations largely offset higher unit log costs in the current quarter. In the Company's pulp and paper segment, operating income also increased due to a weaker Canadian dollar which more than offset a modest reduction in US dollar market prices, and to a lesser extent, reduced pulp unit manufacturing costs which were mostly attributable to a scheduled maintenance outage in the previous quarter.

Abnormally severe winter weather across Eastern North America hampered home building activity during the first quarter, with US housing starts down 9% from the fourth quarter of 2014, averaging 969,000 units on a seasonally adjusted basis for the first quarter of 2015. In Canada, housing starts were down 5% compared to the fourth quarter of 2014, to 177,000 units in first quarter of 2015 on a seasonally adjusted basis. Offshore lumber consumption was lower than the previous quarter reflecting higher-than-normal inventory levels and lower real estate development activity in offshore markets.

The Company's lumber sales realizations in the current quarter reflected the favourable impact of a 9% weaker Canadian dollar and, to a lesser degree, a higher-value sales mix which more than offset lower US dollar lumber prices. The average Random Lengths Western Spruce/Pine/Fir ("SPF") 2x4 #2&Btr price decreased by 9%, or US$32 per Mfbm, to US$308 per Mfbm in the current quarter, while price decreases in lower grade products were somewhat less pronounced. The average Random Lengths Southern Yellow Pine ("SYP") 2x4 #2 price also experienced a decline compared to the fourth quarter of 2014, down US$14 per Mfbm, or 3%. Offshore lumber sales realizations also benefitted from the significantly weaker Canadian dollar during the first quarter of 2015.

Compared to the previous quarter, lumber production was up 15% reflecting the Company's expansion in the US South, improved productivity at the Western SPF operations and additional operating hours in the first quarter of 2015. Lumber shipments were up 7% in the current quarter with higher lumber production offset in part by delayed offshore shipments as a result of a US West Coast port strike (which was resolved at the end of February 2015) and lower shipments during the Chinese Lunar New Year holiday. Overall total lumber unit manufacturing costs were marginally higher than the previous quarter with decreases in Western SPF cash conversion costs largely offsetting continued log cost pressures in Western Canada and weather-related disruptions at the US South operations.

Softwood pulp markets weakened somewhat in the first quarter of 2015, for the most part reflecting strong industry operating rates and increased inventory levels in the marketplace. Reflecting the global softwood pulp market conditions, average list prices for Northern Bleached Softwood Kraft ("NBSK") pulp, as published by RISI, were down in all regions, with the North American average NBSK pulp list price declining US$30 per tonne, or 3%, to US$995 and the list price to China seeing a larger decline, down US$52 per tonne, or 7%. Despite this, the Company's NBSK pulp sales realizations showed a modest increase from the prior quarter, largely as a result of the sharp deterioration of the Canadian dollar (down 9%) and increased shipments to higher-margin regions in the current quarter.

Pulp shipments were down 8% from the previous quarter with increased demand from North America more than offset by reduced shipments to Asia, in part reflecting the traditional Chinese Lunar New Year holiday in the current quarter. Pulp production levels were up 4% reflecting increased NBSK pulp production following a scheduled maintenance outage at the Northwood Pulp Mill in the previous quarter. Pulp unit manufacturing costs in the first quarter of 2015 were down moderately compared to the fourth quarter of 2014, principally attributable to the maintenance outage in the previous quarter.

On April 1, 2015, Canfor completed the acquisition of Southern Lumber Company located in Mississippi, further expanding the Company's presence in the US South.

After the challenging weather in many regions of North America in the first quarter of 2015, the North American lumber market is off to a slow start in the second quarter with benchmark lumber prices having continued to trend downward. A modest improvement for the North American market is anticipated towards the middle of the year as the US housing market gains momentum. Offshore markets are forecast to be flat in the second quarter of 2015 with a modest improvement in the second half of 2015 as inventory balances gradually return to more normalized levels. NBSK pulp markets are projected to stabilize somewhat during the industry's annual spring maintenance period in the second quarter of 2015.

Michael J. Korenberg
Chairman

Don B. Kayne
President and Chief Executive Officer

Canfor Corporation
First Quarter 2015
Management's Discussion and Analysis

This interim Management's Discussion and Analysis ("MD&A") provides a review of Canfor Corporation's ("Canfor" or "the Company") financial performance for the quarter ended March 31, 2015 relative to the quarters ended December 31, 2014 and March 31, 2014, and the financial position of the Company at March 31, 2015. It should be read in conjunction with Canfor's unaudited interim consolidated financial statements and accompanying notes for the quarters ended March 31, 2015 and 2014, as well as the 2014 annual MD&A and the 2014 audited consolidated financial statements and notes thereto, which are included in Canfor's Annual Report for the year ended December 31, 2014 (available at www.canfor.com). The financial information in this interim MD&A has been prepared in accordance with International Financial Reporting Standards ("IFRS"), which is the required reporting framework for Canadian publicly accountable enterprises.

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

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

All financial references are in millions of Canadian dollars unless otherwise noted. The information in this report is as at April 28, 2015.

Forward Looking Statements

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

FIRST QUARTER 2015 OVERVIEW

Selected Financial Information and Statistics

(millions of Canadian dollars, unless otherwise noted)		Q1 2015		Q4 2014		Q1 2014
Operating income (loss) by segment:						
Lumber	**$**	**48.3**	$	40.6	$	56.4
Pulp and Paper	**$**	**43.0**	$	29.4	$	36.5
Unallocated and Other	**$**	**(7.6)**	$	(8.0)	$	(8.5)
Total operating income	**$**	**83.7**	$	62.0	$	84.4
Add: Amortization	**$**	**49.3**	$	46.9	$	44.5
Total operating income before amortization[1]	**$**	**133.0**	$	108.9	$	128.9
Add (deduct):						
Working capital movements	**$**	**(101.2)**	$	11.6	$	(177.8)
Defined benefit plan withdrawals (contributions), net	**$**	**3.0**	$	(3.9)	$	(13.5)
Income taxes paid, net	**$**	**(22.0)**	$	(3.1)	$	(11.8)
Other operating cash flows, net[2]	**$**	**29.0**	$	3.2	$	24.1
Cash from (used in) operating activities	**$**	**41.8**	$	116.7	$	(50.1)
Add (deduct):						
Finance expenses paid	**$**	**(2.6)**	$	(2.7)	$	(2.8)
Share purchases	**$**	**(26.0)**	$	-	$	(2.0)
Distributions paid to non-controlling interests	**$**	**(3.0)**	$	(2.5)	$	(2.1)
Capital additions, net	**$**	**(45.8)**	$	(54.7)	$	(53.1)
Change in restricted cash[3]	**$**	**50.2**	$	(50.2)	$	-
Acquisition of Beadles & Balfour	**$**	**(50.8)**	$	-	$	-
Acquisition of Scotch Gulf	**$**	**(22.3)**	$	-	$	-
Repayment from (Loan to) Scotch Gulf	**$**	**4.1**	$	4.8	$	2.6
Proceeds from long-term debt	**$**	**-**	$	75.0	$	-
Other, net	**$**	**(4.7)**	$	2.5	$	(0.9)
Change in cash / operating loans	**$**	**(59.1)**	$	88.9	$	(108.4)
ROIC – Consolidated period-to-date[4]		**2.8%**		2.6%		3.5%
Average exchange rate (US$ per C$1.00)[5]	**$**	**0.806**	$	0.881	$	0.906

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

Analysis of Specific Material Items Affecting Comparability of Shareholder Net Income

After-tax impact, net of non-controlling interests

(millions of Canadian dollars, except per share amounts)	Q1 2015	Q4 2014	Q1 2014
Shareholder net income, as reported	**$ 29.3**	$ 29.9	$ 45.5
Loss on derivative financial instruments	**$ 16.4**	$ 5.2	$ 2.1
Gain on sale of Daaquam operation	**$ -**	$ -	$ (1.6)
Mark-to-market adjustment to Canfor-LP OSB sale contingent consideration[6]	**$ -**	$ -	$ 0.4
Net impact of above items	**$ 16.4**	$ 5.2	$ 0.9
Adjusted shareholder net income	**$ 45.7**	$ 35.1	$ 46.4
Shareholder net income per share (EPS), as reported	**$ 0.22**	$ 0.22	$ 0.33
Net impact of above items per share	**$ 0.12**	$ 0.04	$ 0.01
Adjusted shareholder net income per share	**$ 0.34**	$ 0.26	$ 0.34

[6] 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 and recorded a gain of $33.4 million (after tax). 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. An asset was recorded based on the fair value of this additional consideration and will be adjusted to current estimated fair value each reporting period. The estimated fair value of the contingent consideration at March 31, 2015 is nil.

The Company reported operating income of $83.7 million for the first quarter of 2015, up $21.7 million compared to operating income of $62.0 million for the fourth quarter of 2014. Current quarter results include the consolidation of the Company's recent US South acquisitions of Beadles Lumber Company Inc. & Balfour Lumber Company ("Beadles & Balfour") and Scotch & Gulf Lumber, LLC ("Scotch Gulf"), which were considered to be controlled by Canfor for accounting purposes on January 2, 2015 and January 30, 2015, respectively.

Increased operating income in the lumber segment primarily reflected the Company's recent acquisitions in the US South, and to a lesser extent, a modest increase in lumber sales realizations. With respect to productivity performance, gains at many of the Company's Western Canadian sawmill operations largely offset higher unit log costs in the current quarter. In the Company's pulp and paper segment, operating income also increased due to a weaker Canadian dollar which more than offset a modest reduction in US dollar market prices, and to a lesser extent, reduced pulp unit manufacturing costs which were mostly attributable to a scheduled maintenance outage in the previous quarter.

Abnormally severe winter weather across Eastern North America hampered home building activity during the first quarter, with US housing starts down 9% from the fourth quarter of 2014, averaging 969,000 units on a seasonally adjusted basis for the first quarter of 2015. In Canada, housing starts were down 5% compared to the fourth quarter of 2014, to 177,000 units in first quarter of 2015 on a seasonally adjusted basis. Offshore lumber consumption was lower than the previous quarter reflecting higher-than-normal inventory levels and lower real estate development activity in offshore markets.

The Company's lumber sales realizations in the current quarter reflected the favourable impact of a 9% weaker Canadian dollar and, to a lesser degree, a higher-value sales mix partly offset by lower US dollar lumber prices. The average Random Lengths Western Spruce/Pine/Fir ("SPF") 2x4 #2&Btr price decreased by 9%, or US$32 per Mfbm, to US$308 per Mfbm in the current quarter, while price decreases in lower grade products were somewhat less pronounced. The average Random Lengths Southern Yellow Pine ("SYP") 2x4 #2 price also experienced a decline compared to the fourth quarter of 2014, down US$14 per Mfbm, or 3%. Offshore lumber sales realizations also benefitted from the significantly weaker Canadian dollar during the first quarter of 2015.

Compared to the previous quarter, lumber production was up 15% reflecting the Company's expansion in the US South, improved productivity at the Western SPF operations and additional operating hours in the first quarter of 2015. Lumber shipments were up 7% in the current quarter with higher lumber production offset in part by delayed offshore shipments as a result of a US West Coast port strike (which was resolved at the end of February 2015) and lower shipments during the Chinese Lunar New Year holiday. Overall total lumber unit manufacturing costs were marginally higher than the previous quarter with decreases in Western SPF cash conversion costs largely offsetting continued log cost pressure in Western Canada and weather-related disruptions at the US South operations.

Softwood pulp markets weakened somewhat in the first quarter of 2015, for the most part reflecting strong industry operating rates and increased inventory levels in the marketplace. Reflecting the global softwood pulp market conditions, average list prices for Northern Bleached Softwood Kraft ("NBSK") pulp, as published by RISI, were down in all regions, with the North American average NBSK pulp list price declining US$30 per tonne, or 3%, to US$995 and the list price to China seeing a larger decline, down US$52 per tonne, or 7%. Despite this, the Company's NBSK pulp sales realizations showed a modest increase from the prior quarter, largely as a result of the sharp deterioration of the Canadian dollar (down 9%) and increased shipments to higher-margin regions in the current quarter.

Pulp shipments were down 8% from the previous quarter with increased demand from North America more than offset by reduced shipments to Asia, in part reflecting the traditional Chinese Lunar New Year holiday in the current quarter. Pulp production levels were up 4% reflecting increased NBSK pulp production following a scheduled maintenance outage at the Northwood Pulp Mill in the previous quarter. Pulp unit manufacturing costs in the first quarter of 2015 were down moderately compared to the fourth quarter of 2014, principally attributable to the maintenance outage in the previous quarter.

For the first quarter of 2015, the Company recorded a net loss of $25.7 million related to its derivative financial instruments principally reflecting the impact of the continued weakening of the Canadian dollar on US dollar foreign exchange collars. Unrealized losses on crude oil collars, due to the continued decline in oil prices in the first quarter of the 2015, as well as smaller unrealized losses on the Company's lumber derivative instruments and interest rate swaps also contributed to the loss in the quarter.

Operating income in the first quarter of 2015 was broadly in line with the same quarter in 2014 reflecting a solid improvement in pulp and paper segment earnings offset by lower earnings in the lumber segment. In the lumber segment, reduced operating income was largely attributable to higher log costs in Western Canada. Lumber production and shipments were up 7% and 17% respectively from the same quarter in 2014 reflecting the Company's acquisitions in the US South coupled with productivity improvement and, in the case of shipments, the weather related transportation challenges and a truckers' strike at the Vancouver Port in the first quarter of the prior year. Results in the first quarter of 2014 included lumber production from the Company's Quesnel sawmill, which was permanently closed in March 2014, and its Daaquam sawmill, which was sold in March 2014. The increase in pulp and paper segment earnings compared to the first quarter of 2014 largely reflected higher earnings generated at Canfor Pulp's Kraft paper operation while earnings from the pulp operations were broadly in line with the comparative period. Overall the pulp and paper segment generated higher pulp and paper unit sales realizations stemming from the weaker Canadian dollar as well as higher shipments largely due to the aforementioned transportation challenges in the first quarter of 2014.

OPERATING RESULTS BY BUSINESS SEGMENT

Lumber

Selected Financial Information and Statistics – Lumber

(millions of Canadian dollars unless otherwise noted)	Q1 2015	Q4 2014	Q1 2014
Sales	**$ 647.0**	$ 564.4	$ 495.7
Operating income before amortization	**$ 80.5**	$ 70.6	$ 84.3
Operating income	**$ 48.3**	$ 40.6	$ 56.4
Average SPF 2x4 #2&Btr lumber price in US$[7]	**$ 308**	$ 340	$ 367
Average SPF price in Cdn$	**$ 382**	$ 386	$ 405
Average SYP 2x4 #2 lumber price in US$[8]	**$ 413**	$ 427	$ 403
Average SYP price in Cdn$	**$ 513**	$ 485	$ 445
US housing starts (thousand units SAAR)[9]	**969**	1,063	925
Production – SPF lumber (MMfbm)[10]	**966.0**	904.9	978.1
Production – SYP lumber (MMfbm)[10, 11]	**234.5**	137.4	139.1
Shipments – SPF lumber (MMfbm)[12]	**930.6**	937.7	779.4
Shipments – SYP lumber (MMfbm)[11, 12]	**236.4**	151.3	143.2
Shipments – wholesale lumber (MMfbm)	**5.4**	2.5	4.8

[7] Western Spruce/Pine/Fir, per thousand board feet (Source – Random Lengths Publications, Inc.).
[8] Southern Yellow Pine, Eastside, per thousand board feet (Source – Random Lengths Publications, Inc.).
[9] Source – US Census Bureau, seasonally adjusted annual rate ("SAAR").
[10] Excluding production of trim blocks. Production in prior periods has been restated from sawmill production to finished lumber production.
[11] Effective January 2, 2015 and January 30, 2015, SYP lumber production and shipment volumes include volume from Beadles & Balfour and Scotch Gulf, respectively (see further discussion in the "Commitments and Subsequent Events" section of this document).
[12] Canfor-produced lumber, including lumber purchased for remanufacture and excluding trim blocks.

Overview

Operating income for the lumber segment was $48.3 million for the first quarter of 2015, an increase of $7.7 million compared to operating income of $40.6 million in the previous quarter, and a decrease of $8.1 million from $56.4 million reported for the same quarter in the prior year. Results in the first quarter of 2015 reflected higher lumber shipments and operating earnings related to the Company's recent growth in the US South. The Company's Western SPF operations recorded a solid improvement in production performance, with the resulting lower cash conversion costs substantially offsetting higher log costs in Western Canada. Lumber sales realizations saw a modest improvement from the previous quarter as a significant weakening in the Canadian dollar more than offset declines in US dollar benchmark prices during the quarter. Total lumber production was up 15% from the previous quarter in large part due to the additional production in the US South, coupled with productivity improvements at the Western SPF operations as well as additional operating hours during the current quarter. SYP productivity and log deliveries were hampered somewhat by challenging weather in Eastern North America during the quarter.

Compared to the first quarter of 2014, the reduced operating income in the lumber segment was attributable to market-driven log cost pressure in Western Canada throughout 2014 and into 2015, as well as lower benchmark lumber prices partly offset by the 11% weakening of the Canadian dollar and a higher value SYP sales mix. Lumber production was up 7% from the same period in 2014 as a result of incremental production from the Scotch Gulf and Beadles & Balfour operations and improved productivity at the Western SPF operations. The first quarter of 2014's lumber production included volume from the Quesnel sawmill, which was permanently closed in March 2014, and the Daaquam sawmill, which sold in March 2014. Excluding production from Scotch Gulf and Beadles & Balfour in the current quarter and Quesnel and Daaquam in the first quarter of 2014, lumber production was up 8% from the first quarter of 2014.

Markets

North American lumber consumption was lower in the first quarter of 2015 than for the last quarter of 2014 as homebuilding activity in Eastern North America was hampered by severe winter weather. Total US housing starts averaged 969,000 units[13] SAAR (seasonally adjusted annual rate) for the first quarter of 2015, down 9% from the fourth quarter of 2014 and up 5% from the same period in 2014. Single-family starts, which consume a higher proportion of lumber, were also down 10% compared to the fourth quarter of 2014 to 636,000 units[13] SAAR. While Canfor maintained its market diversification in the first quarter of 2015, several other producers redirected lumber to the US market in response to the stronger US dollar and higher-than-normal offshore inventory levels. As a result, Western SPF lumber prices declined through the quarter with the average North American Random Length Western SPF 2X4 #2&Btr price down US$32 per Mfbm to US$308 per Mfbm from the fourth quarter of 2014.

In Canada, housing starts in the current quarter were down 5% compared to the previous quarter, at an average of 177,000 units[14] SAAR and in line with the same period in 2014.

Offshore lumber consumption was lower in both China and Japan, with China seeing lower real estate development activity and higher-than-normal inventory levels, in part reflecting increased supply from Russia and Europe as a result of the devaluation of the Russian Ruble and European Euro, respectively.

Sales

Sales for the lumber segment in the first quarter of 2015 were $647.0 million, compared to $564.4 million in the previous quarter and $495.7 million in the first quarter of 2014. The increase in sales compared to the fourth quarter of 2014 principally reflected incremental sales related to consolidation of Scotch Gulf and Beadles & Balfour in January 2015, and the continued weakening of the Canadian dollar, which more than offset weaker US dollar benchmark prices. Current quarter sales realizations also included seasonally higher log sales compared to the fourth quarter of 2014. Higher sales revenue compared to the first quarter of 2014 reflected a combination of the additional sales volumes from the recently acquired mills in the US South, higher Western SPF lumber shipments due to the weather related transportation challenges and a truckers' strike at the Vancouver Port that disrupted deliveries in early 2014 as well as the benefits of the weaker Canadian dollar on unit sales realizations.

Total lumber shipments in first quarter of 2015, at over 1.1 billion board feet, were up 7% from the previous quarter largely reflecting lumber shipments from the Scotch Gulf and Beadles & Balfour operations offset by a build in Western SPF inventory in advance of the spring home building season. Offshore shipments in the first quarter of 2015 were marginally lower than the previous quarter in part due to the US West Coast port strike that was resolved by the end of February 2015 and, to a lesser extent, the Chinese Lunar New Year holiday during the current quarter. Compared to the first quarter of 2014, lumber shipments were up 26%, again reflecting the Company's expansion in the US South as well as the significant weather related transportation challenges and a truckers' strike at the Vancouver Port in the comparative quarter of 2014. Lumber shipments in the first quarter of 2014 also included production from the Quesnel and Daaquam sawmills.

Overall a moderate improvement in lumber sales realizations compared to the previous quarter principally reflected the favourable impact of the 9% weaker Canadian dollar and, to a lesser degree, a higher-value sales mix offset in part by lower Western SPF and SYP benchmark US dollar lumber prices. North American Western SPF sales realizations (in Canadian dollars) were slightly higher than the previous quarter as the benefits of the 8 cent, or 9%, weaker Canadian dollar were offset by declines in most benchmark lumber prices throughout the quarter. The average Random Lengths Western SPF 2x4 #2&Btr price decreased by 9%, or US$32 per Mfbm, to US$308 per Mfbm in the current quarter, while price decreases in lower grade products were somewhat less pronounced. Offshore sales realizations showed a moderate improvement from the previous quarter reflecting favourable foreign exchange rates, and offshore pricing, much of which is negotiated monthly or quarterly in advance. The average Random Lengths SYP 2x4 #2 price was down US$14 per Mfbm, or 3%, from the fourth quarter of 2014. Despite declines in SYP benchmark prices through the quarter, overall US dollar sales realizations for SYP products were up reflecting the sale of higher-value products from the Scotch Gulf and Beadles & Balfour operations.

[13] US Census Bureau
[14] CMHC – Canada Mortgage and Housing Corporation

Compared to the first quarter of 2014, lumber sales realizations showed a marginal improvement reflecting the favourable foreign exchange impact of a 10 cent, or 11%, weaker Canadian dollar and a higher-value sales mix. Offsetting these factors was a decrease in North American Western SPF sales realizations with the North American Random Lengths Western SPF 2x4 #2&Btr price down US$59 per Mfbm, or 16%, from the same quarter in the prior year, while price decreases in certain wider dimensions and lower grade products were less pronounced. Offshore sales realizations were moderately higher compared to the same quarter in the prior year largely due to the 11% lower Canadian dollar and less pronounced price decreases in low grade products primarily destined for the Chinese market. US dollar SYP lumber sales realizations were up marginally from the first quarter of 2014 reflecting an increase the average Random Lengths SYP 2x4 #2 price which was up US$10 per Mfbm, or 2%, and the aforementioned higher-value sales mix.

Residual fibre revenue was moderately higher in the current quarter compared to the fourth quarter of 2014, mainly attributable to higher sawmill residual chip prices and, to a lesser degree, higher residual shipments driven in part by increased lumber production. Compared to the first quarter of 2014, total residual fibre revenue was also up, with higher sawmill residual chip prices more than offsetting slightly lower shipments of sawmill residual chips.

Operations

Lumber production, at just over 1.2 billion board feet, was up 15% from the previous quarter in large part reflecting consolidation of the Scotch Gulf and Beadles & Balfour results during the first quarter of 2015. Excluding Scotch Gulf and Beadles & Balfour, total lumber production was up 8% from the fourth quarter of 2014, resulting from improved productivity at the Western SPF operations and more operating hours largely due to the statutory holidays in the fourth quarter of 2014, offset in part by abnormally severe winter weather across Eastern North America which disrupted log deliveries and impacted productivity at the US South operations early in the quarter. Productivity improvements at the Western SPF operations in the current quarter were mostly attributable to production gains at various mills following capital projects in 2014.

Lumber production was up 7% compared to the same period in 2014. As previously mentioned, the current quarter lumber production included consolidation of production related to the Scotch Gulf and Beadles & Balfour mills while the same period of 2014 included production volume from the Quesnel and Daaquam sawmills which were closed and sold, respectively at the end of the first quarter of 2014. Excluding lumber production related to Scotch Gulf and Beadles & Balfour from the first quarter of 2015 and lumber production related to the Quesnel and Daaquam sawmills in the first quarter of 2014, lumber production was up 8% quarter-over-quarter reflecting the aforementioned improved productivity in the Western SPF operations, additional shifts at certain operations and more capital-related downtime in the comparative period.

Overall, unit manufacturing costs were marginally higher in the first quarter of 2015 than for the previous quarter with lower Western SPF cash conversion costs related to improved productivity largely offsetting increased log costs in Western Canada. Also contributing to the marginally higher unit manufacturing costs was the disruption to the US South operations from the abnormally severe weather as well as the addition of costs related to the Scotch Gulf and Beadles & Balfour operations. Higher unit log costs in Western Canada were primarily attributable to the market-driven increases in stumpage, offset in part by lower fuel costs.

Compared to the first quarter of 2014, moderately higher unit manufacturing costs were driven principally by higher unit log costs in Western Canada reflecting market-driven stumpage increases and upward pressure on hauling and logging costs, as well as the addition of the new US South operations, partly offset by lower fuel costs.

Pulp and Paper

Selected Financial Information and Statistics – Pulp and Paper[15]

(millions of Canadian dollars unless otherwise noted)	Q1 2015	Q4 2014	Q1 2014
Sales	**$ 283.0**	$ 296.0	$ 246.2
Operating income before amortization[16]	**$ 58.9**	$ 45.0	$ 53.0
Operating income	**$ 43.0**	$ 29.4	$ 36.5
Average pulp price delivered to US – US$[17]	**$ 995**	$ 1,025	$ 1,017
Average price in Cdn$	**$ 1,235**	$ 1,164	$ 1,122
Production – pulp (000 mt)	**308.2**	295.7	310.4
Production – paper (000 mt)	**35.4**	36.0	36.7
Shipments – pulp (000 mt)	**287.4**	314.0	255.9
Shipments – paper (000 mt)	**32.1**	35.8	31.3

[15] Includes the Taylor Pulp Mill and 100% of Canfor Pulp Products Inc., which are consolidated in Canfor's results. The Taylor Pulp Mill was sold to Canfor Pulp Products Inc. on January 30, 2015. Pulp production and shipment volumes presented are for both NBSK and bleached chemi-thermo mechanical pulp ("BCTMP").
[16] Amortization includes amortization of certain capitalized major maintenance costs.
[17] Per tonne, NBSK pulp list price delivered to US (as published by RISI).

Overview

Operating income for the pulp and paper segment was $43.0 million for the first quarter of 2015, up $13.6 million from the previous quarter, and up $6.5 million from the first quarter of 2014.

Improved pulp and paper segment results compared to the previous quarter reflected a modest improvement in NBSK pulp sales realizations, driven by a 9% weaker Canadian dollar as well as reduced manufacturing costs mainly attributable to the scheduled maintenance outage in the previous quarter, offset in part by seasonally higher energy costs. NBSK pulp sales realizations also benefitted from increased shipments to higher-margin regions. Partially offsetting these improvements in the quarter were reduced NBSK pulp US dollar list prices, reflecting a weakening of the NBSK pulp market over the quarter, and overall lower NBSK pulp shipment volumes, in part due to the Chinese Lunar New Year holiday. Operating income at the Company's paper operation was moderately higher compared to the previous quarter due to increased unit sales realizations largely offset by higher unit manufacturing costs and 10% lower shipments.

Compared to the first quarter of 2014, the pulp and paper segment's results were up driven by higher earnings from the Company's paper operation while earnings from the pulp operations were broadly in line with the with the same period in 2014. Increased NBSK pulp shipments and an 11% weaker Canadian dollar were offset by moderate reductions in US dollar prices to all regions and a marginal increase in unit manufacturing costs. Higher pulp unit manufacturing costs reflected a largely market-driven increase in fibre costs and to a lesser degree, higher chemical costs, offset in part by lower energy costs due to reduced natural gas prices as well as lower energy consumption. Results at the Company's paper operation included the favourable impact of a weaker Canadian dollar and increased prime bleached sales on unit sales realizations offset somewhat by marginally higher unit manufacturing costs reflecting higher slush pulp costs, the unfavourable impact of reduced production volumes and the timing of maintenance spend.

Markets

Global softwood pulp markets weakened through the first quarter of 2015 reflecting strong industry operating rates and producer inventories outside of the balanced range. The industry historically takes minimal maintenance downtime during the first quarter of the year. Pulp producer inventories increased to 33 days of supply, up 2 days from December 2014[18]. 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 down 3% in the first quarter of 2015 compared to the previous quarter and broadly in line with the same period in 2014[19]. The decrease in softwood pulp shipments compared to the fourth quarter of 2014 reflected decreased shipments to Asia, which are typically slower in the first quarter reflecting the impact of the Chinese Lunar New Year break.

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

Sales

The Company's pulp shipments in the first quarter of 2015 totalled 287,400 tonnes, a decrease of 26,600 tonnes, or 8%, from the previous quarter, reflecting a reduction in shipments to Asia, primarily China, in part due to the traditional Chinese Lunar New Year holiday in the current quarter, while shipments of NBSK pulp to North America saw a moderate increase. Compared to the same period in 2014, pulp shipments were up 31,500 tonnes, or 12%, due to higher NBSK pulp demand in North America and Asia, which more than offset weaker demand from Europe. Paper shipments at 32,100 tonnes were down 3,700 tonnes, or 10%, compared to the previous quarter and up 800 tonnes, or 3%, from the same period of the previous year. The reduced paper shipments compared to the previous quarter were principally due to lower demand from North America, while the increased paper shipments compared to the same period in 2014 in part reflected the transportation challenges faced in that quarter.

Average NBSK pulp list prices, as published by RISI, declined modestly to all regions through the first quarter of 2015, driven in part by a modest growth in producer inventories reflecting minimal industry maintenance during the first quarter. The North American average NBSK pulp list price decreased US$30 per tonne, or 3%, to US$995 and the list price to China saw a more marked decline, down US$52 per tonne, or 7%. Overall current quarter NBSK pulp sales realizations were up modestly, benefitting from the continued weakening of the Canadian dollar, which was down 9% from the previous quarter, and increased shipments to higher-margin regions, which more than offset the lower US dollar NBSK pulp prices. BCTMP unit sales realizations also benefitted from the weaker Canadian dollar, which more than offset moderately lower market prices in the current quarter. Paper unit sales realizations saw a moderate increase from the fourth quarter of 2014 principally due to the impact of the weaker Canadian dollar, down 9%, as well as the increased prime bleached shipments relative to the comparable period.

Compared to the first quarter of 2014, NBSK pulp sales realizations also experienced modest gains, largely as a result of the 11% weaker Canadian dollar. Offsetting the full benefit of the weaker Canadian dollar were lower NBSK pulp US dollar list prices in all regions, as published by RISI, and to a lesser extent, increased discounts in North America. The average NBSK pulp list price to North America saw a modest decrease of US$22 per tonne, while the average list price to China saw a more significant decline of US$94 per tonne. BCTMP sales realizations also reflected the favourable impact of the weaker Canadian dollar which more than outweighed declines in market prices. Paper unit sales realizations saw a moderate increase from the same quarter in 2014 principally due to the impact of the weaker Canadian dollar as well as the increased prime bleached shipments relative to the comparable period.

Operations

Pulp production in the current quarter was 308,200 tonnes, up 12,500 tonnes, or 4%, from the previous quarter, and broadly in line with first quarter of 2014. The 4% increase in pulp production from the fourth quarter of 2014 largely reflected a scheduled maintenance outage at the Northwood Pulp Mill in the comparative period which resulted in reduced market pulp production of 17,000 tonnes. The current quarter NBSK pulp production included planned recovery boiler maintenance at all facilities ranging from 2 to 3 days, while NBSK pulp operating rates were in line with the prior quarters. Paper production in the first quarter of 2015 was 35,400 tonnes relatively in line with the previous quarter and down 1,300 tonnes, or 4%, from the first quarter of 2014. The decrease in paper production compared to the first quarter of 2014 in part reflected slightly lower operating rates in the current quarter.

Pulp unit manufacturing costs saw a moderate decrease from the previous quarter reflecting the higher costs associated with the scheduled maintenance outage in the fourth quarter of 2014, offset somewhat by seasonally higher energy costs. Fibre costs were broadly in line with the fourth quarter of 2014 as market-related increases in prices for sawmill residual chips, where prices are linked to Canadian dollar NBSK pulp sales realizations, were offset by seasonal pricing adjustments and, to a lesser extent, a reduced proportion of higher-cost whole log chips. Paper unit manufacturing costs increased marginally from the previous quarter, driven by higher slush pulp costs due to higher overall pulp sales realizations in the current quarter and to a lesser degree, seasonally higher energy costs, offset in part by reduced spend on maintenance (timing related) and operating supplies in the current quarter.

Compared to the first quarter of 2014, unit manufacturing costs were up marginally, primarily driven by increased fibre costs and to a lesser extent, higher chemical costs and the impact of lower production levels as well as increased planned maintenance spend (timing related). Somewhat mitigating these increased costs were lower energy costs, mainly as a result of lower natural gas prices in the current quarter. Contributing to the higher fibre costs in the current quarter were higher prices for sawmill residual chips, reflecting increased market prices, coupled with a modestly increased proportion of higher-cost whole log chips. Paper unit manufacturing costs increased marginally reflecting the impact of higher market pulp prices on slush pulp costs, coupled with the unfavourable impact of lower production volumes on unit costs and the timing of spend on maintenance in the current quarter.

Unallocated and Other Items

Selected Financial Information

(millions of Canadian dollars)	Q1 2015	Q4 2014	Q1 2014
Operating loss of Panels operations[20]	**$ (0.7)**	$ (0.8)	$ (1.3)
Corporate costs	**$ (6.9)**	$ (7.2)	$ (7.2)
Finance expense, net	**$ (5.3)**	$ (4.6)	$ (4.4)
Loss on derivative financial instruments	**$ (25.7)**	$ (7.4)	$ (3.5)
Other income, net	**$ 8.5**	$ 3.1	$ 3.3

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

Corporate costs were $6.9 million for the first quarter of 2015, down slightly from both comparative periods in 2014.

Net finance expense at $5.3 million for the first quarter of 2015 was up $0.7 million from the previous quarter and up $0.9 million from the same quarter in 2014. The increase compared to both comparative periods largely reflects higher net interest expense related to the Company's employee future benefit plans.

The Company uses a variety of derivative financial instruments as partial economic hedges against unfavourable changes in foreign exchange rates, energy costs, lumber prices and interest rates. In the first quarter of 2015, the Company recorded a net loss of $25.7 million related to its derivative instruments, principally reflecting unrealized losses on US dollar foreign exchange collars as a result of the continued weakening of the Canadian dollar. Also contributing to the loss, to a lesser degree, were unrealized losses on crude oil collars stemming from the continued decline in oil prices in the first quarter of 2015 as well as unrealized losses on the Company's lumber derivative instruments and interest rate swaps.

Other income, net of $8.5 million in the first 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)

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

(millions of Canadian dollars)	Q1 2015	Q4 2014	Q1 2014
Foreign exchange translation differences for foreign operations, net of tax	**$ 34.3**	$ 10.9	$ 10.6
Defined benefit actuarial losses, net of tax	**$ (3.2)**	$ (46.4)	$ (24.3)
Other comprehensive income (loss), net of tax	**$ 31.1**	$ (35.5)	$ (13.7)

In the first quarter of 2015, the Company recorded an after-tax loss of $3.2 million in relation to changes in the valuation of the Company's employee future benefit plans. The loss principally reflects a lower discount rate used to value the net defined benefit obligation, offset in part by a return on plan assets. After-tax losses of $46.4 million and $24.3 million were recorded in the fourth and first quarter of 2014, respectively, both reflecting lower discount rates, offset in part by returns on plan assets.

In addition, the Company recorded $34.3 million of other comprehensive income in the quarter for foreign exchange translation differences for foreign operations, reflecting favourable foreign exchange movements during the quarter. This compared to a foreign exchange translation gain of $10.9 million in the previous quarter and $10.6 million in the first quarter of 2014.

SUMMARY OF FINANCIAL POSITION

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

(millions of Canadian dollars, except for ratios)	Q1 2015	Q4 2014	Q1 2014
Increase (decrease) in cash and cash equivalents	**$ 55.9**	$ 11.9	$ (1.6)
Operating activities	**$ 41.8**	$ 116.7	$ (50.1)
Financing activities	**$ 81.7**	$ (7.2)	$ 99.9
Investing activities	**$ (67.6)**	$ (97.6)	$ (51.4)
Ratio of current assets to current liabilities	**1.8:1**	2.1:1	1.7:1
Net debt to capitalization	**10.9%**	5.1%	13.1%
ROIC - Consolidated period-to-date	**2.8%**	2.6%	3.5%

Changes in Financial Position

Cash generated from operating activities was $41.8 million in the first quarter of 2015, compared to cash generated of $116.7 million in the fourth quarter of 2014 and cash used of $50.1 million in the same quarter of 2014. The decrease in operating cash flows from the previous quarter principally reflects a seasonal log inventory build in Western Canada coupled with an increase in accounts receivable at period end due mostly to the timing of shipments compared to the previous quarter. The increase in non-cash working capital of $101.2 million was more than offset by cash earnings in the first quarter of 2015. Compared to the first quarter of 2014, the increase in operating cash flows was mostly attributable to higher cash earnings as well as a smaller build in log inventories in the first quarter of 2015 than the same quarter in 2014 due to unseasonably warm weather in Western Canada which resulted in lower log deliveries.

Cash generated from financing activities was $81.7 million in the current quarter, compared to cash used of $7.2 million in the previous quarter and cash generated of $99.9 million in the first quarter of 2014. During the current quarter, Canfor purchased 1,112,300 common shares under its Normal Course Issuer Bid for $29.3 million, of which $26.0 million was paid during the quarter. In addition, Canfor Pulp purchased 489,710 common shares under a separate Normal Course Issuer Bid for $7.0 million, of which $1.7 million was paid (see further discussion of the shares purchased under the Normal Course Issuer Bid in the following "Liquidity and Financial Requirements" section). During the first quarter of 2015, the Company withdrew $115.0 million on its operating loan facility and had $183.0 million outstanding on the facility at the end of the quarter. In the fourth quarter of 2014, the Company completed a $75.0 million debt financing for the construction of pellet plants in Fort St. John and Chetwynd and various energy projects in the lumber segment.

Cash used for investing activities was $67.6 million in the current quarter, compared to $97.6 million in the previous quarter and $51.4 million in the same quarter of 2014. Cash used for capital additions was $45.8 million, down $8.9 million from the previous quarter and down $7.3 million from the first quarter of 2014. Current quarter capital expenditures included spending on the construction of the Company's pellet plants in Chetwynd and Fort St. John (see further discussion on the pellet plants in the following "Commitments and Subsequent Events" section), the Polar sawmill rebuild as well as smaller capital projects at both the SYP and Western SPF operations. In the pulp and paper segment, capital expenditures related primarily to the completion of the Intercontinental Pulp Mill turbine upgrade. Investing activities in the current quarter also included the transfer of $50.2 million out of an escrow account in connection with the first phase of the purchase of Beadles & Balfour on January 2, 2015 as well as a net payment of $22.3 million for third phase of the purchase of Scotch Gulf on January 30, 2015 (see further discussion on the Beadles & Balfour and Scotch Gulf acquisitions in the "Commitments and Subsequent Events" section). The Company also received a $4.1 million repayment on the term loan issued to Scotch Gulf prior to consolidation of the subsidiary on January 30, 2015.

Liquidity and Financial Requirements

At March 31, 2015, the Company on a consolidated basis had cash of $214.2 million, $183.0 million drawn on its operating loans, and an additional $50.6 million reserved for several standby letters of credit. Total available undrawn operating loans at period end were $283.9 million.

Canfor has $100.0 million of floating interest rate term debt, repayable in February 2017 and $75.0 million of floating interest term debt, repayable in November 2019. CPPI has $50.0 million of floating interest rate term debt, repayable in November 2018.

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

The Company's consolidated net debt to total capitalization at the end the first quarter of 2015 was 10.9%. For Canfor, excluding CPPI, net debt to capitalization at the end of the first quarter of 2015 was 14.4%.

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 share as of February 28, 2015. The renewed normal course issuer bid is set to expire on March 5, 2016. During the first quarter of 2015, Canfor purchased 1,112,300 common shares for $29.3 million (an average of $26.34 per common share), of which $26.0 million was paid during the quarter. CPPI purchased 489,710 common shares from non-controlling shareholders for $7.0 million (an average of $14.29 per common share) resulting in an increase in Canfor's interest in CPPI to 50.9% at March 31, 2015. Canfor and CPPI may purchase more shares through the balance of 2015 subject to the terms of their normal course issuer bids and certain Board approved criteria.

Commitments and Subsequent Events

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

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

In September 2014, the Company entered into a purchase agreement with Southern Lumber Company Inc. ("Southern Lumber"). The transaction involves the purchase of all operating assets at an aggregate purchase price, excluding working capital, of US$48.7 million. Subsequent to period end, on April 1, 2015, Canfor completed the acquisition of Southern Lumber.

Also in September 2014, the Company announced plans to construct a pellet plant at both the Chetwynd and Fort St. John Sawmill sites, in the Northern British Columbia interior (the "Pellet Plants") in partnership with Pacific BioEnergy Corporation ("Pacific BioEnergy"). The total investment cost is estimated to be $58.0 million and production is scheduled to commence in late 2015. Canfor owns an approximate 95% interest in the Pellet Plants while Pacific BioEnergy owns the remaining 5% and has an option to increase its ownership interest in the Pellet Plants up to a total of 30% over a three year period.

OUTLOOK

Lumber

After the challenging weather in many regions of North America in the first quarter of 2015, the North American lumber market is off to a slow start in the second quarter with benchmark lumber prices having continued to trend downward. A modest improvement for the North American market is anticipated towards the middle of the year as the US housing market gains momentum. Offshore markets are forecast to be flat in the second quarter of 2015 with a modest improvement in the second half of 2015 as inventory balances gradually return to more normalized levels.

With the decline in the Random Lengths Framing Lumber Composite Price throughout the first quarter of 2015, an export duty of 5% will be paid on exports to the US in April and May 2015, the first time since October 2013.

Pulp and Paper

NBSK pulp markets are projected to stabilize somewhat during the industry's annual spring maintenance period in the second quarter of 2015. For the months of April and May 2015, Canfor Pulp announced NBSK pulp list prices of US$980 per tonne in North America, unchanged from March 2015, and list price increases to China of US$10 per tonne for the month of April 2015, and a further US$20 per tonne for May 2015.

Maintenance outages are planned at the Intercontinental and Prince George Mills in the second quarter of 2015, with a projected 10,000 tonnes of reduced NBSK pulp production. The Taylor BCTMP mill will complete a planned maintenance outage in the second quarter of 2015 with a projected 3,000 tonnes of reduced production.

OUTSTANDING SHARES

At April 28, 2015, there were 134,154,663 common shares outstanding.

CRITICAL ACCOUNTING ESTIMATES

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

ACCOUNTING STANDARDS ISSUED AND NOT APPLIED

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

In May 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers*, which will supersede IAS 18, *Revenue*, IAS 11, *Construction Contracts* and related interpretations. The new standard is effective for annual periods beginning on or after January 1, 2017. The Company is still in the process of assessing the impact, if any, on the financial statements of this new standard.

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

INTERNAL CONTROLS OVER FINANCIAL REPORTING

During the quarter ended March 31, 2015, there were no changes in the Company's internal controls over financial reporting that materially affected, or would be reasonably likely to materially affect, such controls.

RISKS AND UNCERTAINTIES

A comprehensive discussion of risks and uncertainties is included in the Company's 2014 annual statutory reports which are available on www.canfor.com or www.sedar.com.

<u>Softwood Lumber Agreement</u>

Canadian softwood lumber exports to the US are currently subject to export taxes under the Softwood Lumber Agreement ("SLA") which has been in place since October 2006. In January 2012, Canada and the US agreed to a two year extension to the SLA extending the expiry of the agreement to October 2015. Discussions on the upcoming expiry are currently underway between the governments of Canada and the US. The outcome of these discussions is uncertain and could result in significant impacts to the Company's US lumber exports. Should an agreement not be reached before the October 2015 expiry, the current SLA provides that no trade actions may be imposed for the importation of softwood lumber from Canada to the US for a period of twelve months following the current SLA expiry date.

SELECTED QUARTERLY FINANCIAL INFORMATION

	Q1 2015	Q4 2014	Q3 2014	Q2 2014	Q1 2014	Q4 2013	Q3 2013	Q2 2013
Sales and income (millions of Canadian dollars)								
Sales	**$ 930.0**	$ 860.4	$ 838.0	$ 907.3	$ 741.9	$ 809.5	$ 755.9	$ 843.2
Operating income	**$ 83.7**	$ 62.0	$ 85.6	$ 97.3	$ 84.4	$ 53.8	$ 49.3	$ 128.2
Net income	**$ 47.0**	$ 40.5	$ 58.2	$ 64.5	$ 58.6	$ 35.1	$ 33.6	$ 114.3
Shareholder net income	**$ 29.3**	$ 29.9	$ 45.5	$ 54.3	$ 45.5	$ 28.0	$ 28.4	$ 110.3
Per common share (Canadian dollars)								
Shareholder net income – basic and diluted	**$ 0.22**	$ 0.22	$ 0.34	$ 0.39	$ 0.33	$ 0.20	$ 0.20	$ 0.77
Book value[22]	**$ 9.76**	$ 10.25	$ 10.24	$ 9.75	$ 10.05	$ 9.82	$ 9.47	$ 9.25
Statistics								
Lumber shipments (MMfbm)	**1,172**	1,092	1,124	1,236	927	1,109	1,172	1,224
Pulp shipments (000 mt)	**287**	314	291	314	256	330	268	308
Average exchange rate – US$/Cdn$	**$ 0.806**	$ 0.881	$ 0.918	$ 0.917	$ 0.906	$ 0.953	$ 0.963	$ 0.977
Average Western SPF 2x4 #2&Btr lumber price (US$)	**$ 308**	$ 340	$ 357	$ 335	$ 367	$ 370	$ 328	$ 335
Average SYP (East) 2x4 #2 lumber price (US$)	**$ 413**	$ 427	$ 438	$ 405	$ 403	$ 415	$ 393	$ 392
Average NBSK pulp list price delivered to US (US$)	**$ 995**	$ 1,025	$ 1,030	$ 1,030	$ 1,017	$ 983	$ 947	$ 937

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

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

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

After-tax impact, net of non-controlling interests (millions of Canadian dollars, except for per share amounts)	Q1 2015	Q4 2014	Q3 2014	Q2 2014	Q1 2014	Q4 2013	Q3 2013	Q2 2013
Shareholder net income, as reported	**$ 29.3**	$ 29.9	$ 45.5	$ 54.3	$ 45.5	$ 28.0	$ 28.4	$ 110.3
(Gain) loss on derivative financial instruments	**$ 16.4**	$ 5.2	$ 0.7	$ (2.1)	$ 2.1	$ 0.1	$ (2.2)	$ 1.0
Mark-to-market adjustment to Canfor-LP OSB sale contingent consideration	**$ -**	$ -	$ 4.5	$ 4.5	$ 0.4	$ 3.6	$ 1.0	$ -
Gain on sale of Canfor-LP OSB (including contingent consideration)	**$ -**	$ -	$ -	$ -	$ -	$ -	$ -	$ (33.4)
Gain on sale of Daaquam operation	**$ -**	$ -	$ -	$ -	$ (1.6)	$ -	$ -	$ -
Foreign exchange (gain) loss on long-term debt and investments, net	**$ -**	$ -	$ -	$ -	$ -	$ 1.5	$ (1.0)	$ 1.8
Mill closure provisions	**$ -**	$ -	$ -	$ -	$ -	$ 14.8	$ -	$ -
One-time costs associated with collective agreements for the lumber business	**$ -**	$ -	$ -	$ -	$ -	$ 0.8	$ -	$ -
Canfor's 50% interest in Canfor-LP OSB's income, net of tax	**$ -**	$ -	$ -	$ -	$ -	$ -	$ -	$ 3.8
Change in substantively enacted tax rate	**$ -**	$ -	$ -	$ -	$ -	$ -	$ -	$ 4.2
Net impact of above items	**$ 16.4**	$ 5.2	$ 5.2	$ 2.4	$ 0.9	$ 20.8	$ (2.2)	$ (22.6)
Adjusted shareholder net income	**$ 45.7**	$ 35.1	$ 50.7	$ 56.7	$ 46.4	$ 48.8	$ 26.2	$ 87.7
Shareholder net income per share (EPS), as reported	**$ 0.22**	$ 0.22	$ 0.34	$ 0.39	$ 0.33	$ 0.20	$ 0.20	$ 0.77
Net impact of above items per share	**$ 0.12**	$ 0.04	$ 0.04	$ 0.02	$ 0.01	$ 0.15	$ (0.02)	$ (0.16)
Adjusted net income per share	**$ 0.34**	$ 0.26	$ 0.38	$ 0.41	$ 0.34	$ 0.35	$ 0.18	$ 0.61

Canfor Corporation
Condensed Consolidated Balance Sheets

(millions of Canadian dollars, unaudited)		As at March 31, 2015		As at December 31, 2014
ASSETS				
Current assets				
Cash and cash equivalents	$	**214.2**	$	158.3
Restricted cash (Note 13(b))		**-**		50.2
Accounts receivable - Trade		**136.6**		91.3
- Other		**48.9**		38.8
Inventories (Note 2)		**640.3**		517.7
Prepaid expenses and other assets		**72.5**		46.3
Total current assets		**1,112.5**		902.6
Property, plant and equipment		**1,322.9**		1,216.1
Timber licenses		**515.7**		519.5
Goodwill and other intangible assets (Note 13(a,b))		**136.7**		105.0
Retirement benefit surplus (Note 5)		**1.8**		0.6
Long-term investments and other (Note 3)		**42.0**		101.3
Deferred income taxes, net		**1.7**		1.7
Total assets	$	**3,133.3**	$	2,846.8
LIABILITIES				
Current liabilities				
Operating loans (Note 4)	$	**183.0**	$	68.0
Accounts payable and accrued liabilities		**380.7**		305.8
Current portion of deferred reforestation obligations		**52.0**		52.1
Total current liabilities		**615.7**		425.9
Long-term debt		**228.9**		228.6
Retirement benefit obligations (Note 5)		**278.1**		263.2
Deferred reforestation obligations		**72.6**		60.0
Other long-term liabilities		**19.7**		19.6
Forward purchase liabilities (Note 13(a,b))		**108.2**		-
Deferred income taxes, net		**187.6**		211.9
Total liabilities	$	**1,510.8**	$	1,209.2
EQUITY				
Share capital	$	**1,059.3**	$	1,068.0
Contributed surplus and other equity		**(74.5)**		31.9
Retained earnings		**264.9**		260.1
Accumulated foreign exchange translation differences		**61.5**		27.2
Total equity attributable to equity holders of the Company		**1,311.2**		1,387.2
Non-controlling interests		**311.3**		250.4
Total equity	$	**1,622.5**	$	1,637.6
Total liabilities and equity	$	**3,133.3**	$	2,846.8

Subsequent Events (Notes 8 & 13(c))

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

APPROVED BY THE BOARD

Director, R.S. Smith

Director, M.J. Korenberg

Canfor Corporation
Condensed Consolidated Statements of Income

(millions of Canadian dollars, except per share data, unaudited)	3 months ended March 31, **2015**	2014
Sales	**$ 930.0**	$ 741.9
Costs and expenses		
Manufacturing and product costs	**625.8**	478.7
Freight and other distribution costs	**146.2**	113.8
Amortization	**49.3**	44.5
Selling and administration costs	**22.3**	18.3
Restructuring, mill closure and severance costs	**2.7**	2.2
	846.3	657.5
Operating income	**83.7**	84.4
Finance expense, net	**(5.3)**	(4.4)
Loss on derivative financial instruments (Note 6)	**(25.7)**	(3.5)
Other income, net	**8.5**	3.3
Net income before income taxes	**61.2**	79.8
Income tax expense (Note 7)	**(14.2)**	(21.2)
Net Income	**$ 47.0**	$ 58.6
Net income attributable to:		
Equity shareholders of the Company	**$ 29.3**	$ 45.5
Non-controlling interests	**17.7**	13.1
Net income	**$ 47.0**	$ 58.6
Net income per common share: (in Canadian dollars)		
Attributable to equity shareholders of the Company		
- Basic and diluted (Note 8)	**$ 0.22**	$ 0.33

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

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

(millions of Canadian dollars, unaudited)		3 months ended March 31, 2015		2014
Net income	**$**	**47.0**	$	58.6
Other comprehensive income (loss)				
Items that will not be recycled through net income:				
Defined benefit plan actuarial losses (Note 5)		**(4.3)**		(32.8)
Income tax recovery on defined benefit actuarial losses (Note 7)		**1.1**		8.5
		(3.2)		(24.3)
Items that may be recycled through net income:				
Foreign exchange translation differences for foreign operations, net of tax		**34.3**		10.6
Other comprehensive income (loss), net of tax		**31.1**		(13.7)
Total comprehensive income	**$**	**78.1**	$	44.9
Total comprehensive income attributable to:				
Equity shareholders of the Company	**$**	**61.5**	$	35.2
Non-controlling interests		**16.6**		9.7
Total comprehensive income	**$**	**78.1**	$	44.9

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

Canfor Corporation
Condensed Consolidated Statements of Changes in Equity

(millions of Canadian dollars, unaudited)	3 months ended March 31, 2015	2014
Share capital		
Balance at beginning of period	**$ 1,068.0**	$ 1,103.7
Share purchases (Note 8)	**(8.7)**	(1.5)
Balance at end of period	**$ 1,059.3**	$ 1,102.2
Contributed surplus and other equity		
Balance at beginning of period	**$ 31.9**	$ 31.9
Forward purchase liability related to acquisitions (Note 13(a,b))	**(106.4)**	-
Balance at end of period	**$ (74.5)**	$ 31.9
Retained earnings		
Balance at beginning of period	**$ 260.1**	$ 234.2
Net income attributable to equity shareholders of the Company	**29.3**	45.5
Defined benefit plan actuarial losses, net of tax	**(2.1)**	(20.9)
Share purchases (Note 8)	**(20.6)**	(3.5)
Acquisition of non-controlling interests (Note 8)	**(1.8)**	-
Balance at end of period	**$ 264.9**	$ 255.3
Accumulated foreign exchange translation differences		
Balance at beginning of period	**$ 27.2**	$ 4.5
Foreign exchange translation differences for foreign operations, net of tax	**34.3**	10.6
Balance at end of period	**$ 61.5**	$ 15.1
Total equity attributable to equity holders of the Company	**$ 1,311.2**	$ 1,404.5
Non-controlling interests		
Balance at beginning of period	**$ 250.4**	$ 223.1
Net income attributable to non-controlling interests	**17.7**	13.1
Defined benefit plan actuarial losses attributable to non-controlling interests, net of taxes	**(1.1)**	(3.4)
Distributions to non-controlling interests	**(3.0)**	(2.1)
Acquisition of non-controlling interest (Note 8)	**(5.2)**	-
Non-controlling interests arising on acquisitions (Note 13(a,b))	**52.5**	-
Balance at end of period	**$ 311.3**	$ 230.7
Total equity	**$ 1,622.5**	$ 1,635.2

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

Canfor Corporation
Condensed Consolidated Statements of Cash Flows

(millions of Canadian dollars, unaudited)	3 months ended March 31, 2015	2014
Cash generated from (used in):		
Operating activities		
Net income	**$ 47.0**	$ 58.6
Items not affecting cash:		
Amortization	**49.3**	44.5
Income tax expense	**14.2**	21.2
Long-term portion of deferred reforestation obligations	**12.4**	13.4
Changes in mark-to-market value of derivative financial instruments	**19.1**	3.4
Employee future benefits	**3.7**	3.2
Finance expense, net	**5.3**	4.4
Other, net	**11.0**	4.3
Defined benefit plan withdrawals (contributions), net	**3.0**	(13.5)
Income taxes paid, net	**(22.0)**	(11.8)
	143.0	127.7
Net change in non-cash working capital (Note 9)	**(101.2)**	(177.8)
	41.8	(50.1)
Financing activities		
Change in operating bank loans (Note 4)	**115.0**	106.8
Finance expenses paid	**(2.6)**	(2.8)
Share purchases (Note 8)	**(26.0)**	(2.0)
Acquisition of non-controlling interests (Note 8)	**(1.7)**	-
Cash distributions paid to non-controlling interests	**(3.0)**	(2.1)
	81.7	99.9
Investing activities		
Additions to property, plant and equipment and intangible assets, net	**(45.8)**	(53.1)
Change in restricted cash (Note 13(b))	**50.2**	-
Acquisition of Beadles & Balfour (Note 13(b))	**(50.8)**	-
Acquisition of Scotch Gulf, net of cash acquired (Note 13(a))	**(22.3)**	-
Loan repayment from Scotch Gulf (Note 13(a))	**4.1**	2.6
Other, net	**(3.0)**	(0.9)
	(67.6)	(51.4)
Increase (decrease) in cash and cash equivalents*	**55.9**	(1.6)
Cash and cash equivalents at beginning of period*	**158.3**	89.5
Cash and cash equivalents at end of period*	**$ 214.2**	$ 87.9

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

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

Canfor Corporation
Notes to the Condensed Consolidated Financial Statements
(unaudited, millions of Canadian dollars unless otherwise noted)

1. Basis of Preparation

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

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

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

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

These financial statements were authorized for issue by the Company's Board of Directors on April 28, 2015.

Accounting Standards Issued and Not Applied

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

In May 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers*, which will supersede IAS 18, *Revenue*, IAS 11, *Construction Contracts* and related interpretations. The new standard is effective for annual periods beginning on or after January 1, 2017. The Company is in the process of assessing the impact, if any, on the financial statements of this new standard.

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

2. Inventories

(millions of Canadian dollars)		**As at March 31, 2015**		As at December 31, 2014
Logs	**$**	**181.1**	$	122.6
Finished products		**341.2**		281.0
Residual fibre		**10.5**		10.3
Processing materials and supplies		**107.5**		103.8
	$	**640.3**	$	517.7

3. Long-Term Investments and Other

(millions of Canadian dollars)		**As at March 31, 2015**		As at December 31, 2014
Investments	**$**	**23.6**	$	64.4
Term loan Scotch Gulf (Note 13(a))		**-**		23.2
Other deposits, loans and advances		**18.4**		13.7
	$	**42.0**	$	101.3

On January 30, 2015 Canfor was deemed to have control of Scotch Gulf (Note 13 (a)). The acquisition method of accounting was applied on the acquisition date of January 30, 2015 and the equity investment in Scotch Gulf recorded in Long-Term Investments and Other was derecognised. The term loan between Canfor and Scotch Gulf was eliminated on consolidation of Scotch Gulf. Investments also include the Company's 33.3% investment in Lakeland Mills Ltd. and Winton Global Lumber Ltd. for which the Company does not exercise significant influence and records as a level 3 financial instrument measured at fair value, which is determined based on the future expected cash flows of the underlying investments.

4. Operating Loans

Available Operating Loans

(millions of Canadian dollars)		**As at March 31, 2015**		As at December 31, 2014
Canfor (excluding CPPI)				
Available Operating Loans:				
Operating loan facility - Canfor (excluding CPPI)	**$**	**350.0**	$	350.0
Facility for letters of credit - Canfor (excluding CPPI)		**37.5**		37.5
Total operating loans – Canfor (excluding CPPI)		**387.5**		387.5
Operating loan drawn		**(183.0)**		(68.0)
Letters of credit		**(38.8)**		(13.8)
Total available operating loans - Canfor (excluding CPPI)	**$**	**165.7**	$	305.7
CPPI				
Available Operating Loans:				
Operating loan facility	**$**	**110.0**	$	110.0
Facility for letters of credit related to energy agreements		**20.0**		20.0
Total operating loans - CPPI		**130.0**		130.0
Operating loan drawn		**-**		-
Energy letters of credit		**(11.8)**		(12.2)
Total available operating loans - CPPI	**$**	**118.2**	$	117.8
Consolidated:				
Total operating loans	**$**	**517.5**	$	517.5
Total available operating loans	**$**	**283.9**	$	423.5

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

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

Canfor (excluding CPPI) has a separate facility to cover letters of credit. At March 31, 2015, $34.4 million of letters of credit were covered under this facility with the balance of $4.4 million covered under the Canfor's general operating loan facility.

CPPI has a separate facility with a maturity date of June 30, 2015 to cover energy-related letters of credit. At March 31, 2015, $9.4 million of energy-related letters of credit were covered under this facility with the balance of $2.4 million covered under CPPI's general operating loan facility.

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

As at March 31, 2015, the Company and CPPI were in compliance with all covenants relating to their operating loans. Substantially all borrowings of CPPI (operating loans and long-term debt) are non-recourse to other entities within the Company.

5. Employee Future Benefits

For the three months ended March 31, 2015, a defined benefit actuarial loss of $4.3 million (before tax) was recognized in other comprehensive income. The loss recorded in the first quarter of 2015 reflects a lower discount rate used to value the net defined benefit obligations, offset in part by the return on plan assets. For the three months ended March 31, 2014, a loss of $32.8 million (before tax) was recognized in other comprehensive income.

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

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

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

6. Financial Instruments

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

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

The three levels of the fair value hierarchy are:

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

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

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

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

(millions of Canadian dollars)	Fair Value Hierarchy Level	**As at March 31, 2015**	As at December 31, 2014
Financial assets measured at fair value			
Derivative financial instruments – held for trading	Level 2	**$ -**	$ 0.3
Royalty receivable – available for sale	Level 3	**2.2**	2.9
		$ 2.2	$ 3.2
Financial liabilities measured at fair value			
Derivative financial instruments – held for trading	Level 2	**$ 28.0**	$ 9.1
		$ 28.0	$ 9.1

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

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

At March 31, 2015, the fair value of derivative financial instruments was a net liability of $28.0 million (December 31, 2014 - net liability of $8.8 million). The fair value of these financial instruments was determined based on prevailing market rates for instruments with similar characteristics.

The following table summarizes the gain (loss) on derivative financial instruments for the three month periods ended March 31, 2015 and 2014:

(millions of Canadian dollars)	3 months ended March 31, **2015**	2014
Foreign exchange collars and forward contracts	**$ (19.5)**	$ (2.9)
Energy derivatives	**(2.6)**	0.2
Lumber futures	**(2.3)**	0.1
Pulp futures	**-**	(0.3)
Interest rate swaps	**(1.3)**	(0.6)
Loss on derivative financial instruments	**$ (25.7)**	$ (3.5)

7. Income Taxes

(millions of Canadian dollars)	3 months ended March 31, **2015**	2014
Current	**$ (21.3)**	$ (13.9)
Deferred	**7.1**	(7.3)
Income tax expense	**$ (14.2)**	$ (21.2)

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

(millions of Canadian dollars)	3 months ended March 31, **2015**	2014
Income tax expense at statutory rate 2015 – 26.0% (2014 - 26.0%)	**$ (15.9)**	$ (20.7)
Add (deduct):		
Non-taxable income related to non-controlling interests	**1.0**	0.1
Entities with different income tax rates and other tax adjustments	**0.9**	(0.4)
Permanent difference from capital gains and losses and other non-deductible items	**(0.2)**	(0.2)
Income tax expense	**$ (14.2)**	$ (21.2)

In addition to the amounts recorded to net income, a tax recovery of $1.1 million was recorded to other comprehensive income for the three month period ended March 31, 2015 (three months ended March 31, 2014 - recovery of $8.5 million) in relation to the actuarial losses on defined benefit employee compensation plans. Also included in other comprehensive income for the three months ended March 31, 2015 was an expense of $2.5 million related to foreign exchange gains on translation of investments in foreign operations (three months ended March 31, 2014 - nil).

8. Earnings Per Share and Normal Course Issuer Bid

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

	3 months ended March 31, **2015**	2014
Weighted average number of common shares	**135,158,503**	139,894,792

On March 5, 2015, the Company renewed its normal course issuer bid whereby it can purchase for cancellation up to 6,767,993 common shares or approximately 5% of its issued and outstanding common shares as of February 28, 2015. The renewed normal course issuer bid is set to expire on March 4, 2016. During the first quarter of 2015, Canfor purchased 1,112,300 common shares for $29.3 million (an average of $26.34 per common share), of which $26.0 million was paid in the quarter, with the balance paid in early April 2015. Under a separate normal course issuer bid, CPPI purchased shares from non-controlling shareholders increasing Canfor's ownership from 50.5% at December 31, 2014 to 50.9% at March 31, 2015. Subsequent to quarter end, on April 1 and 2, 2015, Canfor purchased 110,000 common shares for $2.7 million (an average of $24.55 per common share). As at April 28, 2015, there were 134,154,663 common shares outstanding.

9. Net Change in Non-Cash Working Capital

(millions of Canadian dollars)	3 months ended March 31, **2015**	2014
Accounts receivable	**$ (38.9)**	$ (13.8)
Inventories	**(96.9)**	(194.9)
Prepaid expenses and other assets	**(12.8)**	(2.2)
Accounts payable, accrued liabilities and current portion of deferred reforestation obligations	**47.4**	33.1
Net increase in non-cash working capital	**$ (101.2)**	$ (177.8)

10. Segment Information

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

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

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

(millions of Canadian dollars)	Lumber	Pulp & Paper	Unallocated & Other	Elimination Adjustment	Consolidated
3 months ended March 31, 2015					
Sales to external customers	**$ 647.0**	**283.0**	**-**	**-**	**$ 930.0**
Sales to other segments	**$ 42.5**	**-**	**-**	**(42.5)**	**$ -**
Operating income (loss)	**$ 48.3**	**43.0**	**(7.6)**	**-**	**$ 83.7**
Amortization	**$ 32.2**	**15.9**	**1.2**	**-**	**$ 49.3**
Capital expenditures[1]	**$ 30.8**	**13.5**	**1.5**	**-**	**$ 45.8**
Identifiable assets	**$ 2,061.3**	**788.2**	**283.8**	**-**	**$ 3,133.3**
3 months ended March 31, 2014					
Sales to external customers	$ 495.7	246.2	-	-	$ 741.9
Sales to other segments	$ 35.5	-	-	(35.5)	$ -
Operating income (loss)	$ 56.4	36.5	(8.5)	-	$ 84.4
Amortization	$ 27.9	16.5	0.1	-	$ 44.5
Capital expenditures[1]	$ 39.6	10.1	3.4	-	$ 53.1
Identifiable assets	$ 1,920.0	782.0	183.1	-	$ 2,885.1

[1] Capital expenditures represent cash paid for capital assets during the periods. Pulp & Paper includes capital expenditures by CPPI that were partially financed by government grants. Capital expenditures for the three months ended March 31, 2015 exclude the assets purchased as part of the acquisitions of Scotch Gulf and Beadles & Balfour (Note 13(a,b)).

11. Sale of Daaquam Operation

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

12. Sale of Taylor Pulp Mill

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

13. US South Acquisitions

(a) Phased Purchase of Scotch Gulf

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

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

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

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

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

The Company incurred acquisition-related costs of $1.4 million, principally relating to external legal fees and due diligence costs, which have been included in selling and administration costs. These amounts are recorded in the Company's consolidated statement of income for the three months ended March 31, 2015. Scotch Gulf's results are recorded in the lumber segment.

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

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

(b) Phased Purchase of Beadles & Balfour

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

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

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

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

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

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

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

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

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

(c) Purchase of Southern Lumber Company Inc. ("Southern Lumber")

On April 1, 2015, the Company completed the acquisition of Southern Lumber's Mississippi operating assets for cash consideration of US$48.7 million, excluding working capital. As a result of the acquisition, Canfor will recognize approximately US$2.5 million of working capital and US$48.7 million of long-term assets acquired net of liabilities assumed. Given the acquisition date, Canfor will be completing the purchase price allocation in the second quarter of 2015.