2015

CANFOR PULP PRODUCTS INC.

QUARTER TWO INTERIM REPORT

FOR THE THREE MONTHS ENDED JUNE 30, 2015

To Our Shareholders

Canfor Pulp Products Inc. ("CPPI") reported net income of $17.7 million, or $0.25 per share, for the second quarter of 2015, compared to $28.0 million, or $0.40 per share, for the first quarter of 2015 and $18.8 million, or $0.27 per share, for the second quarter of 2014. For the six months ended June 30, 2015, the Company's net income was $45.7 million, or $0.65 per share, compared to $44.5 million, or $0.63 per share, for the six months ended June 30, 2014.

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

(millions of Canadian dollars, except per share amounts)	**Q2 2015**	Q1 2015	**YTD 2015**	Q2 2014	YTD 2014
Sales	**$ 276.0**	$ 273.8	**$ 549.8**	$ 252.5	$ 478.9
Operating income before amortization	**$ 36.4**	$ 57.1	**$ 93.5**	$ 44.8	$ 97.2
Operating income	**$ 20.9**	$ 41.4	**$ 62.3**	$ 29.6	$ 66.0
Net income	**$ 17.7**	$ 28.0	**$ 45.7**	$ 18.8	$ 44.5
Net income per share, basic and diluted	**$ 0.25**	$ 0.40	**$ 0.65**	$ 0.27	$ 0.63
Adjusted net income	**$ 13.0**	$ 35.0	**$ 48.0**	$ 18.4	$ 45.1
Adjusted net income per share, basic and diluted	**$ 0.18**	$ 0.50	**$ 0.68**	$ 0.26	$ 0.64

After adjusting for items affecting comparability with the prior periods, the Company's adjusted net income for the second quarter of 2015 was $13.0 million, or $0.18 per share, compared to an adjusted net income of $35.0 million, or $0.50 per share, for the first quarter of 2015. CPPI's adjusted net income for the second quarter of 2014 was $18.4 million, or $0.26 per share.

The Company reported operating income of $20.9 million for the second quarter of 2015, a decrease of $20.5 million from $41.4 million reported for the first quarter of 2015. The decrease largely reflected the impact of maintenance outages and lower unit sales realizations for both pulp and paper segments. The current quarter results included scheduled maintenance outages at two of the Company's Northern Bleached Softwood Kraft ("NBSK") pulp mills, its Bleached Chemi-Thermo Mechanical Pulp ("BCTMP") mill and its kraft paper machine.

Global softwood pulp markets remained relatively balanced through the second quarter of 2015, supported by solid global softwood pulp demand and the industry's seasonal spring maintenance period. The average NBSK pulp list price to North America, as published by RISI, was stable through the quarter, remaining unchanged from March 2015 at US$980 per tonne, and down US$15 per tonne, or 2%, compared to the average in the previous quarter. Overall, NBSK pulp unit sales realizations were down compared to the previous quarter, reflecting lower pricing in all regions, and, to a lesser extent, the impact of a slightly stronger Canadian dollar (up 1%) and increased shipments to lower-margin regions. BCTMP markets were challenging in the second quarter, with the Company seeing a modest decline in unit sales realizations compared to the first quarter of 2015.

Pulp shipments increased 7% from the previous quarter, reflecting a full quarter of shipments from the Taylor Pulp Mill, as well as a marginal increase in NBSK pulp shipments, principally to China, in part due to the traditional Chinese Lunar New Year holiday impacting shipments in the first quarter. Pulp production levels were up 2%, with the Taylor Pulp Mill production more than offsetting scheduled maintenance outages at the Company's Intercontinental and Prince George Pulp Mills, which reduced market pulp production by approximately 11,000 tonnes. In the current quarter, there was also a scheduled maintenance outage at the Taylor Pulp Mill, which reduced market pulp production by approximately 3,000 tonnes. Pulp unit manufacturing costs in the second quarter of 2015 were up compared to the first quarter of 2015, largely reflecting these maintenance outages, offset somewhat by seasonally lower energy prices and usage.

The Company's paper segment's operating income was down $2.2 million from the previous quarter, reflecting the impact of the scheduled maintenance outage of the Prince George Kraft paper machine, and to a lesser extent, a marginal decrease in unit sales realizations, offset in part by increased shipments to the North American market.

For the month of July 2015, the Company's NBSK pulp list price is US$980 per tonne in North America, unchanged from June 2015. With reported global softwood pulp inventories at the high end of the balanced range heading into the seasonally slower summer period, there is some risk of downward pressure on global softwood pulp prices in the third quarter of 2015. A weakening of the Canadian dollar should mitigate this price pressure.

A maintenance outage is planned to begin at the Northwood Pulp Mill in September 2015, with a projected 25,000 tonnes of reduced NBSK pulp production, 5,000 tonnes of which will fall in the third quarter of 2015 with the balance in the fourth quarter of 2015.

On July 21, 2015, the Board of Directors declared a quarterly dividend of $0.0625 per share and a special dividend of $1.1250 per share, both payable on August 10, 2015, to the shareholders of record on August 3, 2015. The special dividend has been declared as a result of strong cash generated by the business in 2014 and 2015 to-date.

Michael J. Korenberg
Chairman

Don B. Kayne
Chief Executive Officer

Canfor Pulp Products Inc.
Second Quarter 2015
Management's Discussion and Analysis

This interim Management's Discussion and Analysis ("MD&A") provides a review of Canfor Pulp Products Inc.'s ("CPPI" or "the Company") financial performance for the quarter ended June 30, 2015 relative to the quarters ended March 31, 2015 and June 30, 2014, and the financial position of the Company at June 30, 2015. It should be read in conjunction with CPPI's unaudited interim consolidated financial statements and accompanying notes for the quarters ended June 30, 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 CPPI's Annual Report for the year ended December 31, 2014 (available at www.canforpulp.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 CPPI considers to be a relevant indicator for measuring trends in the Company's performance and its ability to generate funds to meet its debt service and capital expenditure requirements, and to pay dividends. Reference is also made to Adjusted Net Income (Loss) (calculated as 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 Net Income (Loss)") and Adjusted Net Income (Loss) per Share (calculated as Adjusted Net Income (Loss) divided by weighted average number of shares outstanding during the period). Operating Income (Loss) before Amortization, Adjusted Net Income (Loss) and Adjusted 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, CPPI's Operating Income (Loss) before Amortization, Adjusted Net Income (Loss) and Adjusted 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 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 CPPI.

All financial references are in millions of Canadian dollars unless otherwise noted. The information in this report is as at July 21, 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.

SECOND QUARTER 2015 OVERVIEW

Selected Financial Information and Statistics

(millions of Canadian dollars, except per share amounts)	Q2 2015	Q1 2015	YTD 2015	Q2 2014	YTD 2014
Operating income (loss) by segment:					
Pulp	**$ 18.1**	$ 36.3	**$ 54.4**	$ 28.8	$ 63.8
Paper	**$ 5.7**	$ 7.9	**$ 13.6**	$ 3.8	$ 8.3
Unallocated	**$ (2.9)**	$ (2.8)	**$ (5.7)**	$ (3.0)	$ (6.1)
Total operating income	**$ 20.9**	$ 41.4	**$ 62.3**	$ 29.6	$ 66.0
Add: Amortization	**$ 15.5**	$ 15.7	**$ 31.2**	$ 15.2	$ 31.2
Total operating income before amortization[1]	**$ 36.4**	$ 57.1	**$ 93.5**	$ 44.8	$ 97.2
Add (deduct):					
Working capital movements	**$ (1.1)**	$ (9.5)	**$ (10.6)**	$ 10.7	$ (9.2)
Defined benefit pension plan contributions	**$ (1.3)**	$ (0.4)	**$ (1.7)**	$ (1.3)	$ (3.8)
Income taxes paid, net	**$ (3.2)**	$ (12.5)	**$ (15.7)**	$ (1.3)	$ (10.9)
Other operating cash flows, net	**$ (0.3)**	$ 4.9	**$ 4.6**	$ (1.3)	$ 2.2
Cash from operating activities	**$ 30.5**	$ 39.6	**$ 70.1**	$ 51.6	$ 75.5
Add (deduct):					
Dividends paid	**$ (4.4)**	$ (4.4)	**$ (8.8)**	$ (4.5)	$ (8.0)
Finance expenses paid	**$ (0.6)**	$ (0.5)	**$ (1.1)**	$ (0.6)	$ (1.4)
Capital additions, net	**$ (12.8)**	$ (13.4)	**$ (26.2)**	$ (20.2)	$ (30.2)
Acquisition of Taylor Pulp Mill	**$ -**	$ (12.6)	**$ (12.6)**	$ -	$ -
Share purchases	**$ (7.3)**	$ (1.7)	**$ (9.0)**	$ -	$ -
Other, net	**$ 0.3**	$ 0.2	**$ 0.5**	$ -	$ -
Change in cash / operating loans	**$ 5.7**	$ 7.2	**$ 12.9**	$ 26.3	$ 35.9
ROIC – Consolidated period-to-date[2]	**3.0%**	7.2%	**10.1%**	4.0%	9.8%
Average exchange rate (US$ per C$1.00)[3]	**$ 0.813**	$ 0.806	**$ 0.810**	$ 0.917	$ 0.912

[1] Amortization includes amortization of certain capitalized major maintenance costs.
[2] Consolidated Return on Invested Capital ("ROIC") is equal to operating income, plus realized gains/losses on derivatives and other income/expense, 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. The year-to-date ROIC may not equal the sum of the quarterly amounts due to rounding and the impact of the average invested capital balance during the applicable period.
[3] Source – Bank of Canada (average noon rate for the period).

Analysis of Specific Material Items Affecting Comparability of Net Income

After-tax impact (millions of Canadian dollars, except per share amounts)	Q2 2015	Q1 2015	YTD 2015	Q2 2014	YTD 2014
Net income, as reported	**$ 17.7**	$ 28.0	**$ 45.7**	$ 18.8	$ 44.5
(Gain) loss on derivative financial instruments[4]	**$ (3.4)**	$ 7.0	**$ 3.6**	$ (0.4)	$ 0.6
Mark-to-market gain on Taylor Pulp contingent consideration[5]	**$ (1.3)**	$ -	**$ (1.3)**	$ -	$ -
Net impact of above items	**$ (4.7)**	$ 7.0	**$ 2.3**	$ (0.4)	$ 0.6
Adjusted net income	**$ 13.0**	$ 35.0	**$ 48.0**	$ 18.4	$ 45.1
Net income per share (EPS), as reported	**$ 0.25**	$ 0.40	**$ 0.65**	$ 0.27	$ 0.63
Net impact of above items per share[6]	**$ (0.07)**	$ 0.10	**$ 0.03**	$ (0.01)	$ 0.01
Adjusted net income per share[6]	**$ 0.18**	$ 0.50	**$ 0.68**	$ 0.26	$ 0.64

[4] In the prior periods, certain amounts have been reclassified from Other Income to (Gain) Loss on Derivative Financial Instruments, with no impact to net income or EPS, as reported.
[5] As part of the purchase of the Taylor Pulp Mill on January 30, 2015, CPPI may pay contingent consideration based on the Taylor Pulp Mill's future earnings over a three year period. On the acquisition date, the contingent consideration was valued at $1.8 million. During the second quarter of 2015, the contingent consideration liability was revalued to nil, resulting in a gain of $1.8 million (before tax) to Other Income (see further discussion in the "Purchase of Taylor Pulp Mill" section).
[6] The year-to-date net impact of the adjusting items per share and adjusted net income per share may not equal the sum of the quarterly per share amounts due to rounding and the weighted average common shares outstanding during the applicable period.

The Company reported operating income of $20.9 million for the second quarter of 2015, a decrease of $20.5 million from $41.4 million reported for the first quarter of 2015. The decrease largely reflected the impact of maintenance outages and lower unit sales realizations for both pulp and paper segments. The current quarter results included scheduled maintenance outages at two of the Company's Northern Bleached Softwood Kraft ("NBSK") pulp mills, its Bleached Chemi-Thermo Mechanical Pulp ("BCTMP") mill and its kraft paper machine.

Global softwood pulp markets remained relatively balanced through the second quarter of 2015, supported by solid global softwood pulp demand and the industry's seasonal spring maintenance period. The average NBSK pulp list price to North America, as published by RISI, was stable through the quarter, remaining unchanged from March 2015 at US$980 per tonne, and down US$15 per tonne, or 2%, compared to the average in the previous quarter. Overall, NBSK pulp unit sales realizations were down compared to the previous quarter, reflecting lower pricing in all regions, and, to a lesser extent, the impact of a slightly stronger Canadian dollar (up 1%) and increased shipments to lower-margin regions. BCTMP markets were challenging in the second quarter, with the Company seeing a modest decline in unit sales realizations compared to the first quarter of 2015.

Pulp shipments increased 7% from the previous quarter, reflecting a full quarter of shipments from the Taylor Pulp Mill, as well as a marginal increase in NBSK pulp shipments, principally to China, in part due to the traditional Chinese Lunar New Year holiday impacting shipments in the first quarter. Pulp production levels were up 2%, with the Taylor Pulp Mill production more than offsetting scheduled maintenance outages at the Company's Intercontinental and Prince George Pulp Mills, which reduced market pulp production by approximately 11,000 tonnes. In the current quarter, there was also a scheduled maintenance outage at the Taylor Pulp Mill, which reduced market pulp production by approximately 3,000 tonnes. Pulp unit manufacturing costs in the second quarter of 2015 were up compared to the first quarter of 2015, largely reflecting these maintenance outages, offset somewhat by seasonally lower energy prices and usage.

The Company's paper segment's operating income was down $2.2 million from the previous quarter, reflecting the impact of the scheduled maintenance outage of the Prince George Kraft paper machine, and to a lesser extent, a marginal decrease in unit sales realizations, offset in part by increased shipments to the North American market.

Compared to the second quarter of 2014, operating income was down $8.7 million, with higher earnings in the paper segment more than offset by lower pulp segment operating income. In the latter segment, the benefit of a 10 cent, or 11%, weaker Canadian dollar and higher production volumes were more than offset by lower US dollar NBSK pulp realizations and higher unit manufacturing costs, related largely to market-driven increases in fibre costs as well as costs associated with the scheduled maintenance outages in the current quarter. Compared to the same period in 2014, the paper segment's improved unit sales realizations, mainly attributable to the weaker Canadian dollar, more than offset lower shipments and the impact from the scheduled maintenance outage at the Company's paper machine in the current quarter.

OPERATING RESULTS BY BUSINESS SEGMENT

Pulp

Selected Financial Information and Statistics – Pulp

(millions of Canadian dollars unless otherwise noted)	Q2 2015	Q1 2015	YTD 2015	Q2 2014	YTD 2014
Sales	**$ 234.0**	$ 231.7	**$ 465.7**	$ 207.8	$ 398.5
Operating income before amortization[7]	**$ 32.8**	$ 51.1	**$ 83.9**	$ 43.2	$ 93.3
Operating income	**$ 18.1**	$ 36.3	**$ 54.4**	$ 28.8	$ 63.8
Average pulp price delivered to US – US$[8]	**$ 980**	$ 995	**$ 988**	$ 1,030	$ 1,023
Average price in Cdn$[8]	**$ 1,205**	$ 1,235	**$ 1,220**	$ 1,123	$ 1,122
Production – pulp (000 mt)[9]	**294.6**	287.8	**582.4**	237.7	496.4
Shipments – pulp (000 mt)[9]	**291.9**	272.1	**564.0**	246.9	469.3
Marketed on behalf of Canfor[9]	**-**	15.2	**15.2**	67.5	101.0

[7] Amortization includes amortization of certain capitalized major maintenance costs.

[8] Per tonne, NBSK pulp list price delivered to US (as published by RISI); Average price in Cdn$ calculated as average pulp price delivered to US – US$ multiplied by the average exchange rate – C$ per US$1.00 according to Bank of Canada average noon rate for the period.

[9] Pulp production and shipment volumes in 2015 include BCTMP volumes subsequent to CPPI's purchase of the Taylor BCTMP Mill on January 30, 2015 (see further discussion in the "Purchase of Taylor Pulp Mill" section). Following the sale, CPPI no longer markets any product on behalf of Canfor.

Overview

Operating income for the pulp segment was $18.1 million for the second quarter of 2015, a decrease of $18.2 million from the previous quarter and $10.7 million below the second quarter of 2014. Pulp segment financial results and information in 2015 include the Taylor Pulp Mill, acquired January 30, 2015.

The current quarter pulp results included the impact of the scheduled maintenance outages at the Intercontinental and Prince George Pulp Mills and the Taylor Pulp Mill, which reduced market pulp production by approximately 11,000 tonnes and 3,000 tonnes, respectively. Decreased operating results compared to the previous quarter largely reflected higher unit manufacturing costs due to these outages as well as a modest decline in NBSK and BCTMP pulp sales realizations, driven by lower pricing to all regions, increased shipments to lower-margin regions and, to a lesser extent, a 1 cent, or 1%, stronger Canadian dollar.

Compared to the second quarter of 2014, the benefit of an 11% weaker Canadian dollar and higher production volumes were more than offset by lower US dollar list prices to all regions and higher unit NBSK pulp manufacturing costs. Higher unit NBSK pulp manufacturing costs reflected a largely market-driven increase in fibre costs as well as costs associated with the scheduled maintenance outages in the current quarter.

The current quarter's results also reflected the lower unit sales realizations and manufacturing costs attributable to the Taylor Pulp BCTMP facility.

Markets

Global softwood pulp markets remained relatively balanced through the second quarter of 2015, with increased shipments to China offset in part by declines to North America and Europe. Global softwood pulp producer inventory levels tightened through the quarter, decreasing 3 days from the end of March 2015 to 30 days' supply in May 2015[10] (latest available data), partly reflecting supply constraints due to seasonal maintenance downtime, as inventory levels ended the quarter at the high end of the balanced range (market conditions are generally considered balanced when inventories are in the 27-30 days of supply range).

Global shipments of bleached softwood kraft pulp improved modestly compared to the previous quarter and were broadly in line with the same period in 2014[11]. The increase in softwood pulp shipments compared to the previous quarter in part reflected increased shipments to Asia.

[10] 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").

[11] As reported PPPC statistics.

Sales

The Company's pulp shipments in the second quarter of 2015 totalled 291,900 tonnes, an increase of 19,800 tonnes, or 7%, from the previous quarter, reflecting the Taylor Pulp Mill shipments for the full quarter as well as a marginal increase in NBSK pulp shipments. Increased NBSK pulp shipments reflected increased shipments to China, in part due to the traditional Chinese Lunar New Year holiday in the previous quarter, partially offset by reduced shipments to North America. Compared to the same period in 2014, pulp shipments were up 45,000 tonnes, or 18%, mostly due to the addition of the Taylor Pulp Mill, which more than offset a marginal reduction in NBSK pulp shipments, with higher NBSK pulp demand in North America partially offset by reduced shipments to Asia.

The average North American NBSK pulp list price, as published by RISI, was down US$15 per tonne, or 2%, compared to the average for the first quarter of 2015. Overall NBSK pulp sales realizations were down in the second quarter of 2015, reflecting lower pricing in all regions, and, to a lesser extent, increased shipments to lower-margin regions, particularly China. Also contributing to the reduced sales realizations in the second quarter of 2015, was the 1 cent, or 1%, stronger Canadian dollar compared to the previous quarter. Discount levels were consistent with the previous quarter. BCTMP unit sales realizations reflected moderately lower market prices, attributable to the challenging BCTMP markets, coupled with the slightly stronger Canadian dollar in the second quarter of 2015.

Compared to the second quarter of 2014, NBSK pulp sales realizations were up slightly, with the 11% weaker Canadian dollar and increased shipments to North America offsetting 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 decrease of US$50 per tonne, or 5%, while prices to China saw a similar decline.

Energy revenue was broadly in line with both comparable periods as the contribution from the recently completed turbine upgrade at the Intercontinental Pulp Mill, which commenced selling power under an Electricity Purchase Agreement in the current quarter, was offset by the impact of the maintenance outages in the current quarter, coupled with seasonally lower energy prices compared to the previous quarter.

Operations

Pulp production in the current quarter was 294,600 tonnes, up 6,800 tonnes, or 2%, from the previous quarter, and up 56,900 tonnes, or 24%, from the second quarter of 2014. The increase in production from both comparable periods included the production from the Taylor Pulp Mill for the full quarter. Excluding production volume from the Taylor Pulp Mill, the Company's NBSK pulp production decreased modestly compared to the previous quarter but was up slightly compared to the same period in the prior year. Production in the current quarter also reflected scheduled maintenance outages at the Intercontinental and Prince George Pulp Mills, which reduced market pulp production by approximately 11,000 tonnes and a scheduled maintenance outage at the Taylor Pulp Mill, which reduced market pulp production by approximately 3,000 tonnes. There were no maintenance outages in the previous quarter, while in the comparative second quarter of 2014, production levels included maintenance outages at the Intercontinental and Prince George Pulp Mills, which reduced market pulp production by approximately 18,000 tonnes.

Pulp unit manufacturing costs saw an increase from the previous quarter, largely reflecting the maintenance outages in the quarter, which resulted in higher costs and lower production volumes, and to a lesser degree, higher outage-related chemical costs in the current period, offset somewhat by seasonally lower energy price and usage. Fibre costs for the NBSK pulp mills were broadly in line with the previous quarter as lower prices for sawmill residual chips (linked to lower Canadian dollar NBSK pulp sales realizations) and a lower proportion of higher-cost whole log chips offset seasonally higher price adjustments. Fibre costs for the BCTMP mill was lower than the previous quarter, also reflecting lower prices for sawmill residual chips (linked to lower Canadian dollar BCTMP pulp sales realizations).

Compared to the second quarter of 2014, unit manufacturing costs were also up, with the inclusion of the lower cost BCTMP unit costs and the favourable impact of the higher production volumes largely offsetting modestly higher costs associated with the scheduled maintenance outages in the current quarter and a marginal increase in NBSK pulp fibre costs. Contributing to the higher NBSK pulp fibre costs in the current quarter were higher prices for sawmill residual chips, reflecting increased Canadian dollar NBSK pulp sales realizations, somewhat mitigated by lower freight costs.

Paper

Selected Financial Information and Statistics – Paper

(millions of Canadian dollars unless otherwise noted)	Q2 2015	Q1 2015	YTD 2015	Q2 2014	YTD 2014
Sales	**$ 42.0**	$ 40.6	**$ 82.6**	$ 44.5	$ 79.3
Operating income before amortization[12]	**$ 6.5**	$ 8.8	**$ 15.3**	$ 4.6	$ 10.0
Operating income	**$ 5.7**	$ 7.9	**$ 13.6**	$ 3.8	$ 8.3
Production – paper (000 mt)	**31.0**	35.4	**66.4**	35.4	72.1
Shipments – paper (000 mt)	**33.8**	32.1	**65.9**	39.7	71.0

[12] Amortization includes amortization of certain capitalized major maintenance costs.

Overview

Operating income for the paper segment was $5.7 million for the second quarter of 2015, down $2.2 million from the first quarter of 2015 and up $1.9 million from the second quarter of 2014.

The decrease in operating income compared to the previous quarter largely reflected the impact of a scheduled maintenance outage at the Company's paper machine and, to a lesser extent, a marginal decrease in unit sales realizations. The lower unit sales realizations were in part attributable to lower prices in some markets as European producers leveraged the relative weakening of the European Euro, the impact of the slightly stronger Canadian dollar and reduced prime bleached sales, offset in part by increased demand from the North American market.

Compared to the second quarter of 2014, improved unit sales realizations, driven primarily by the 11% weaker Canadian dollar, more than offset lower shipments and higher unit manufacturing costs reflecting the impact of the scheduled maintenance outage in the current quarter, which was five days longer than the outage in the same period in 2014.

Markets

Global kraft paper market demand was steady through the second quarter of 2015. North American markets were balanced, while certain offshore markets faced increased competition in part impacted by economic factors in both Asian and European markets.

Sales

The Company's paper shipments in the second quarter of 2015 were 33,800 tonnes, up 1,700 tonnes, or 5%, from the previous quarter and down 5,900 tonnes, or 15%, from the same period of the previous year. The increased shipments compared to the previous quarter were principally due to higher demand from North America while demand to most other regions was relatively stable. Compared to the second quarter of 2014, the lower shipments in part reflected the drawdown to normal inventory levels in that quarter following the transportation challenges faced in the first quarter of 2014. Prime bleached shipments, which attract higher prices, were down 2% from both comparative periods.

Current quarter unit sales realizations saw a marginal decrease from the first quarter of 2015, reflecting somewhat weaker prices, in part attributable to lower prices in some markets as European producers leveraged the relative weakening of the European Euro, coupled with the 1% stronger Canadian dollar and decreased prime bleached shipments. Somewhat mitigating these factors were increased shipments to higher-margin regions. Compared to the same period in 2014, unit sales realizations were well up, benefitting from the 11% weaker Canadian dollar, and to a lesser extent, higher prices and increased shipments to higher-margin regions, all of which more than offset the decline in realizations on sales to Europe due to the strengthening Canadian dollar compared to the European Euro, and a lower percentage of prime bleached sales.

Operations

Paper production in the second quarter of 2015 was 31,000 tonnes, down 4,400 tonnes, or 12%, from both comparable periods. The current quarter production reflected a scheduled nine day maintenance outage at the Company's paper machine in April 2015, which reduced paper production by approximately 3,300 tonnes. In the comparative second quarter of 2014, production levels included the impact of a four day maintenance outage at the Company's paper machine, which reduced paper production by approximately 1,600 tonnes. Production in the current quarter also reflected lower slush pulp transfers from the Prince George Pulp Mill due to the aforementioned scheduled maintenance outage.

Paper unit manufacturing costs increased modestly from the previous quarter, with lower slush pulp costs due to lower overall pulp unit sales realizations in the current quarter more than offset by the impact of the lower production volumes and higher costs related to the outage and, to a lesser degree, higher chemical costs in the current quarter.

Compared to the second quarter of 2014, higher paper unit manufacturing costs reflected the impact of the longer maintenance outage in the current quarter, market-driven increases in slush pulp costs and higher chemical costs.

Unallocated Items

Selected Financial Information

(millions of Canadian dollars)	**Q2 2015**	Q1 2015	**YTD 2015**	Q2 2014	YTD 2014
Corporate costs	**$ (2.9)**	$ (2.8)	**$ (5.7)**	$ (3.0)	$ (6.1)
Finance expense, net	**$ (1.3)**	$ (1.3)	**$ (2.6)**	$ (1.3)	$ (2.8)
Gain (loss) on derivative financial instruments[13]	**$ 4.6**	$ (9.4)	**$ (4.8)**	$ 0.6	$ (0.8)
Other income (expense), net[13]	**$ (0.6)**	$ 7.0	**$ 6.4**	$ (3.7)	$ (2.8)

[13] In the prior periods, certain amounts have been reclassified from Other Income to (Gain) Loss on Derivative Financial Instruments, with no impact to net income.

Corporate costs of $2.9 million for the second quarter of 2015 and net finance expense of $1.3 million for the second quarter of 2015 were in line with both comparative quarters.

The Company uses a variety of derivative financial instruments as partial economic hedges against unfavourable changes in foreign exchange rates, energy costs, interest rates and pulp prices. For the second quarter of 2015, the Company recorded a net gain of $4.6 million, principally reflecting unrealized mark-to-market gains on US dollar foreign exchange collars as a result of the strengthening of the Canadian dollar at the close of the current quarter relative to the exchange rate at the close of the first quarter of 2015.

Other expense, net for the second quarter of 2015 of $0.6 million included unfavourable exchange movements on US dollar denominated cash, receivables and payables, resulting from the slight strengthening of the Canadian dollar through the quarter. In the current quarter, other expense, net also included a $1.8 million mark-to-market gain related to the Taylor Pulp Mill contingent consideration liability, reflecting lower forecast BCTMP prices over the contingent consideration period (See further discussion in the "Purchase of Taylor Pulp Mill" section).

Other Comprehensive Income (Loss)

In the second quarter of 2015, the Company recorded an after-tax gain of $4.5 million in relation to changes in the valuation of the Company's employee future benefit plans. The gain principally reflected a higher discount rate used to value the net defined benefit obligation. After-tax losses of $2.2 million and $1.8 million were recorded in the first quarter of 2015 and second quarter of 2014, respectively, both reflecting lower discount rates, offset in part by returns on plan assets, while the loss in the second quarter of 2014 also included actuarial assumption and experience adjustments.

SUMMARY OF FINANCIAL POSITION

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

(millions of Canadian dollars, except for ratios)		Q2 2015		Q1 2015		YTD 2015		Q2 2014		YTD 2014
Increase (decrease) in cash and cash equivalents	**$**	**5.7**	$	7.2	**$**	**12.9**	$	21.3	$	24.7
Operating activities	**$**	**30.5**	$	39.6	**$**	**70.1**	$	51.6	$	75.5
Financing activities	**$**	**(12.3)**	$	(6.6)	**$**	**(18.9)**	$	(10.1)	$	(20.6)
Investing activities	**$**	**(12.5)**	$	(25.8)	**$**	**(38.3)**	$	(20.2)	$	(30.2)
Ratio of current assets to current liabilities						**2.5 : 1**				2.1 : 1
Net debt to capitalization						**(8.3)%**				2.5%
ROIC – Consolidated period-to-date		**3.0%**		7.2%		**10.1%**		4.0%		9.8%

Changes in Financial Position

Cash generated from operating activities was $30.5 million in the second quarter of 2015, down $9.1 million from the previous quarter, with lower cash earnings partly offset by a smaller build in non-cash working capital and the timing of tax installment payments in the current quarter. The increase in non-cash working capital in the current quarter reflected a reduction in accounts payable balances, in part reflecting seasonally lower electricity accruals, coupled with slightly higher accounts receivable balances, attributable to the higher pulp shipments. Partially offsetting these factors was a reduction of paper and raw material inventories, with the former largely reflecting the outage in the current quarter and the latter in part due to lower whole log deliveries during the spring break-up period. Compared to the second quarter of 2014, cash generated from operating activities decreased by $21.1 million, reflecting a $10.7 million decrease in non-cash working capital in the second quarter of 2014, principally due to the timing of payments related to maintenance outages offset in part by an increase in trade accounts receivable balances in that quarter, and to a lesser degree, the lower cash earnings compared to the current quarter.

Cash used for financing activities was $12.3 million in the second quarter of 2015, up $5.7 million from the previous quarter and $2.2 million from the second quarter of 2014. Cash flows in the current period included a $4.4 million dividend (6.25 cents per share), in line with both the previous quarter and the second quarter of 2014. Finance expenses paid in the second quarter of 2015 at $0.6 million were broadly in line with the prior quarter and the second quarter of 2014. In the second quarter of 2015, CPPI purchased 137,855 common shares under its Normal Course Issuer Bid for $2.0 million, all of which was paid in cash during the period. Cash paid for share purchases in the second quarter also included $5.3 million related to share purchases at the end of the first quarter. This compares to cash paid for Normal Course Issuer Bid share purchases of $1.7 million in the first quarter of 2015 and no share purchases in the second quarter of 2014 (see further discussion of the shares purchased under the Normal Course Issuer Bid in the following "Liquidity and Financial Requirements" section). No amounts were drawn against the Company's operating loan facility at the end of the second quarter of 2015.

Cash used for investing activities of $12.5 million in the current quarter included final payments related to the completion of the Intercontinental Pulp Mill's turbine upgrade at the end of the previous quarter and maintenance-of-business capital related to the aforementioned maintenance outages during the quarter. The Intercontinental Pulp Mill facility commenced selling power under an Electricity Purchase Agreement in the second quarter of 2015.

Liquidity and Financial Requirements

At June 30, 2015, CPPI had cash of $89.7 million and operating loan facilities of $130.0 million which were unused, except for $11.6 million reserved for several standby letters of credit related to energy sales agreements. In early July, the Company made a tax installment payment of $19.0 million.

During the second quarter of 2015, the Company extended the maturity date on its $30.0 million operating loan facility, which covers energy-related letters of credit, to June 30, 2016.

CPPI has $50.0 million of floating interest rate term debt, repayable in November 2018.

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

On March 5, 2015, the Company renewed its normal course issuer bid whereby it can purchase for cancellation up to 3,541,491 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 second quarter of 2015, CPPI purchased 137,855 common shares for $2.0 million (an average of $14.51 per common share). Cash paid for shares purchases in the second quarter of 2015 of $7.3 million also included payments of $5.3 million for purchases that occurred in the first quarter of 2015. As a result of the share purchases during the quarter, Canfor's interest in CPPI increased to 51.0% by quarter end. The Company may purchase more shares through the balance of 2015 subject to the terms of the normal course issuer bid and certain Board approved criteria.

Dividends

On July 21, 2015, the Board of Directors declared a quarterly dividend of $0.0625 per share and a special dividend of $1.1250 per share, both payable on August 10, 2015, to the shareholders of record on August 3, 2015. The special dividend has been declared as a result of strong cash generated by the business in 2014 and 2015 to-date.

Purchase of Taylor Pulp Mill

On January 30, 2015, CPPI completed the purchase of the Taylor Pulp Mill from Canfor for cash consideration of $12.6 million including final working capital. The acquisition 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, CPPI may also pay contingent consideration to Canfor, based on the Taylor Pulp Mill's annual adjusted operating income before amortization over a three year period, starting January 31, 2015. On the acquisition date, the fair value of the contingent consideration was $1.8 million and was recorded as a long-term provision. CPPI recognized long-term assets acquired net of liabilities assumed at a fair value of $2.8 million and net working capital of $11.6 million. The acquisition has been accounted for in accordance with IFRS 3 *Business Combinations.*

If the acquisition had occurred on January 1, 2015, CPPI's consolidated sales for the six months ended June 30, 2015 would have increased by approximately $8.9 million and consolidated net income for the six months ended June 30, 2015 would have increased by approximately $0.2 million. The Taylor Pulp Mill's results are recorded in the pulp segment.

During the second quarter of 2015, CPPI reversed the $1.8 million contingent consideration provision, resulting in a gain recorded to Other Income to reflect lower forecast BCTMP prices over the contingent consideration period.

OUTLOOK

Pulp

For the month of July 2015, the Company's NBSK pulp list price is US$980 per tonne in North America, unchanged from June 2015. With reported global softwood pulp inventories at the high end of the balanced range heading into the seasonally slower summer period, there is some risk of downward pressure on global softwood pulp prices in the third quarter of 2015. A weakening of the Canadian dollar should mitigate this price pressure.

A maintenance outage is planned to begin at the Northwood Pulp Mill in September 2015, with a projected 25,000 tonnes of reduced NBSK pulp production, 5,000 tonnes of which will fall in the third quarter of 2015 with the balance in the fourth quarter of 2015.

Paper

Paper markets are projected to remain stable in the third quarter of 2015. Prices in paper markets are at risk of coming under some modest pressure as a result of the stronger US dollar.

OUTSTANDING SHARES

At July 21, 2015, there were 70,202,258 common shares of the Company outstanding.

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with International Financial Reporting Standards requires management to make estimates and assumptions that affect the amounts recorded in the financial statements. On an ongoing basis, management reviews its estimates, including those related to useful lives for amortization, impairment of long-lived assets, pension and other employee future benefit plans and asset retirement 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, 2018. 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 CPPI 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 June 30, 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.canforpulp.com or www.sedar.com.

SELECTED QUARTERLY FINANCIAL INFORMATION

	Q2 2015	Q1 2015	Q4 2014	Q3 2014	Q2 2014	Q1 2014	Q4 2013	Q3 2013
Sales and income (millions of Canadian dollars)								
Sales	**$ 276.0**	$ 273.8	$ 264.0	$ 237.6	$ 252.5	$ 226.4	$ 245.6	$ 196.1
Operating income	**$ 20.9**	$ 41.4	$ 28.0	$ 31.4	$ 29.6	$ 36.4	$ 24.0	$ 11.3
Net income	**$ 17.7**	$ 28.0	$ 20.7	$ 24.3	$ 18.8	$ 25.7	$ 14.2	$ 9.1
Per common share (Canadian dollars)								
Net income – basic and diluted	**$ 0.25**	$ 0.40	$ 0.29	$ 0.34	$ 0.27	$ 0.36	$ 0.20	$ 0.13
Book value[14]	**$ 7.40**	$ 7.17	$ 6.92	$ 6.86	$ 6.56	$ 6.39	$ 6.17	$ 5.79
Dividends declared[15]	**$ 1.1875**	$ 0.0625	$ 0.0625	$ 0.0625	$ 0.0625	$ 0.0625	$ 0.0500	$ 0.0500
Statistics								
Pulp shipments (000 mt)	**291.9**	272.1	258.6	240.5	246.9	222.4	273.3	212.2
Paper shipments (000 mt)	**33.8**	32.1	35.8	35.7	39.7	31.3	31.1	35.5
Average exchange rate – US$/Cdn$	**$ 0.813**	$ 0.806	$ 0.881	$ 0.918	$ 0.917	$ 0.906	$ 0.953	$ 0.963
Average NBSK pulp list price delivered to US (US$)	**$ 980**	$ 995	$ 1,025	$ 1,030	$ 1,030	$ 1,017	$ 983	$ 947

[14] 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.

[15] Dividends declared in Q2 2015 included a quarterly dividend of \$0.0625 per share and a special dividend of \$1.1250 per share.

Sales are primarily influenced by changes in market pulp prices, sales volumes and fluctuations in Canadian dollar exchange rates. Operating income, net income and operating income before amortization are primarily impacted by: sales revenue; freight costs; fluctuations of fibre, chemical and energy prices; level of spending and timing of maintenance downtime; and production curtailments. Net income is also impacted by fluctuations in Canadian dollar exchange rates, the revaluation to the period end rate of US dollar denominated working capital balances and long-term debt, and revaluation of outstanding natural gas swaps and US dollar forward contracts.

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

After-tax impact (millions of Canadian dollars, except for per share amounts)	**Q2 2015**	Q1 2015	Q4 2014	Q3 2014	Q2 2014	Q1 2014	Q4 2013	Q3 2013
Net income, as reported	**$ 17.7**	$ 28.0	$ 20.7	$ 24.3	$ 18.8	$ 25.7	$ 14.2	$ 9.1
(Gain) loss on derivative financial instruments	**$ (3.4)**	$ 7.0	$ 0.6	$ 0.2	$ (0.4)	$ 1.0	$ 0.1	$ (1.5)
Mark-to market gain on Taylor Pulp contingent consideration	**$ (1.3)**	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Foreign exchange (gain) loss on long-term debt	**$ -**	$ -	$ -	$ -	$ -	$ -	$ 3.0	$ (2.0)
Net impact of above items	**$ (4.7)**	$ 7.0	$ 0.6	$ 0.2	$ (0.4)	$ 1.0	$ 3.1	$ (3.5)
Adjusted net income	**$ 13.0**	$ 35.0	$ 21.3	$ 24.5	$ 18.4	$ 26.7	$ 17.3	$ 5.6
Net income per share (EPS), as reported	**$ 0.25**	$ 0.40	$ 0.29	$ 0.34	$ 0.27	$ 0.36	$ 0.20	$ 0.13
Net impact of above items per share	**$ (0.07)**	$ 0.10	$ 0.01	$ -	$ (0.01)	$ 0.01	$ 0.04	$ (0.05)
Adjusted net income per share	**$ 0.18**	$ 0.50	$ 0.30	$ 0.34	$ 0.26	$ 0.37	$ 0.24	$ 0.08

Canfor Pulp Products Inc.
Condensed Consolidated Balance Sheets

(millions of Canadian dollars, unaudited)		**As at June 30, 2015**		As at December 31, 2014
ASSETS				
Current assets				
Cash and cash equivalents	**$**	**89.7**	$	76.8
Accounts receivable - Trade		**74.2**		60.7
- Other		**12.0**		10.0
Inventories (Note 2)		**169.6**		143.7
Prepaid expenses and other assets		**5.8**		11.2
Total current assets		**351.3**		302.4
Property, plant and equipment		**522.2**		524.1
Other long-term assets		**0.8**		0.9
Total assets	**$**	**874.3**	$	827.4
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	**$**	**138.6**	$	123.2
Total current liabilities		**138.6**		123.2
Long-term debt		**50.0**		50.0
Retirement benefit obligations (Note 4)		**95.0**		94.9
Other long-term provisions		**5.2**		4.2
Deferred income taxes, net		**65.7**		65.5
Total liabilities	**$**	**354.5**	$	337.8
EQUITY				
Share capital	**$**	**517.5**	$	522.1
Retained earnings (deficit)		**2.3**		(32.5)
Total equity	**$**	**519.8**	$	489.6
Total liabilities and equity	**$**	**874.3**	$	827.4

Subsequent Event (Note 12)

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

APPROVED BY THE BOARD

S.E. Bracken-Horrocks

Director, S.E. Bracken-Horrocks

Director, M.J. Korenberg

Canfor Pulp Products Inc.
Condensed Consolidated Statements of Income

(millions of Canadian dollars, except per share data, unaudited)	3 months ended June 30, 2015	3 months ended June 30, 2014	6 months ended June 30, 2015	6 months ended June 30, 2014
Sales	**$ 276.0**	$ 252.5	**$ 549.8**	$ 478.9
Costs and expenses				
Manufacturing and product costs	**191.5**	166.4	**362.6**	304.9
Freight and other distribution costs	**41.5**	33.9	**79.6**	62.8
Amortization	**15.5**	15.2	**31.2**	31.2
Selling and administration costs	**6.6**	7.4	**14.1**	14.0
	255.1	222.9	**487.5**	412.9
Operating income	**20.9**	29.6	**62.3**	66.0
Finance expense, net	**(1.3)**	(1.3)	**(2.6)**	(2.8)
Gain (loss) on derivative financial instruments (Note 5)	**4.6**	0.6	**(4.8)**	(0.8)
Other income (expense), net	**(0.6)**	(3.7)	**6.4**	(2.8)
Net income before income taxes	**23.6**	25.2	**61.3**	59.6
Income tax expense (Note 6)	**(5.9)**	(6.4)	**(15.6)**	(15.1)
Net income	**$ 17.7**	$ 18.8	**$ 45.7**	$ 44.5
Net income per common share: (in Canadian dollars)				
Attributable to equity shareholders of the Company				
- Basic and diluted (Note 7)	**$ 0.25**	$ 0.27	**$ 0.65**	$ 0.63

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

Canfor Pulp Products Inc.
Condensed Consolidated Statements of Other Comprehensive Income (Loss)

	3 months ended June 30,		6 months ended June 30,	
(millions of Canadian dollars, unaudited)	**2015**	2014	**2015**	2014
Net income	**$ 17.7**	$ 18.8	**$ 45.7**	$ 44.5
Other comprehensive income (loss)				
Items that will not be recycled through net income:				
Defined benefit plan actuarial gains (losses) (Note 4)	**6.1**	(2.4)	**3.1**	(11.6)
Income tax recovery (expense) on defined benefit plan actuarial gains (losses) (Note 6)	**(1.6)**	0.6	**(0.8)**	3.0
Other comprehensive income (loss), net of tax	**4.5**	(1.8)	**2.3**	(8.6)
Total comprehensive income	**$ 22.2**	$ 17.0	**$ 48.0**	$ 35.9

Condensed Consolidated Statements of Changes in Equity

	3 months ended June 30,		6 months ended June 30,	
(millions of Canadian dollars, unaudited)	**2015**	2014	**2015**	2014
Share capital				
Balance at beginning of period	**$ 518.5**	$ 523.4	**$ 522.1**	$ 523.4
Share purchases (Note 7)	**(1.0)**	-	**(4.6)**	-
Balance at end of period	**$ 517.5**	$ 523.4	**$ 517.5**	$ 523.4
Retained earnings (deficit)				
Balance at beginning of period	**$ (14.5)**	$ (70.0)	**$ (32.5)**	$ (85.4)
Net income	**17.7**	18.8	**45.7**	44.5
Defined benefit plan actuarial gains (losses), net of tax	**4.5**	(1.8)	**2.3**	(8.6)
Dividends declared	**(4.4)**	(4.5)	**(8.8)**	(8.0)
Share purchases (Note 7)	**(1.0)**	-	**(4.4)**	-
Balance at end of period	**$ 2.3**	$ (57.5)	**$ 2.3**	$ (57.5)
Total equity	**$ 519.8**	$ 465.9	**$ 519.8**	$ 465.9

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

Canfor Pulp Products Inc.
Condensed Consolidated Statements of Cash Flows

(millions of Canadian dollars, unaudited)	3 months ended June 30, **2015**	3 months ended June 30, 2014	6 months ended June 30, **2015**	6 months ended June 30, 2014
Cash generated from (used in):				
Operating activities				
Net income	**$ 17.7**	$ 18.8	**$ 45.7**	$ 44.5
Items not affecting cash:				
Amortization	**15.5**	15.2	**31.2**	31.2
Income tax expense	**5.9**	6.4	**15.6**	15.1
Changes in mark-to-market value of derivative financial instruments	**(6.1)**	(0.9)	**0.9**	0.3
Employee future benefits	**1.4**	1.2	**2.8**	2.4
Finance expense, net	**1.3**	1.3	**2.6**	2.8
Other, net	**0.4**	1.5	**(0.7)**	3.1
Defined benefit plan contributions, net	**(1.3)**	(1.3)	**(1.7)**	(3.8)
Income taxes paid, net	**(3.2)**	(1.3)	**(15.7)**	(10.9)
	31.6	40.9	**80.7**	84.7
Net change in non-cash working capital (Note 8)	**(1.1)**	10.7	**(10.6)**	(9.2)
	30.5	51.6	**70.1**	75.5
Financing activities				
Change in operating bank loans	**-**	(5.0)	**-**	(11.2)
Finance expenses paid	**(0.6)**	(0.6)	**(1.1)**	(1.4)
Dividends paid	**(4.4)**	(4.5)	**(8.8)**	(8.0)
Share purchases (Note 7)	**(7.3)**	-	**(9.0)**	-
	(12.3)	(10.1)	**(18.9)**	(20.6)
Investing activities				
Additions to property, plant and equipment, net	**(12.8)**	(20.2)	**(26.2)**	(30.2)
Acquisition of Taylor Pulp Mill (Note 11)	**-**	-	**(12.6)**	-
Other, net	**0.3**	-	**0.5**	-
	(12.5)	(20.2)	**(38.3)**	(30.2)
Increase in cash and cash equivalents*	**5.7**	21.3	**12.9**	24.7
Cash and cash equivalents at beginning of period*	**84.0**	16.9	**76.8**	13.5
Cash and cash equivalents at end of period*	**$ 89.7**	$ 38.2	**$ 89.7**	$ 38.2

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

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

Canfor Pulp Products Inc.
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 Pulp Products Inc. ("CPPI") and its subsidiary entities, hereinafter referred to as "CPPI" or "the Company". At June 30, 2015, Canfor Corporation ("Canfor") held a 51.0% interest in CPPI.

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.canforpulp.com or www.sedar.com.

These financial statements were authorized for issue by the Company's Board of Directors on July 21, 2015.

Accounting Standards Issued and Not Applied

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, 2018. The Company is in the process of assessing the impact, if any, on the financial statements of this new standard.

In July 2014, the 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.

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

2. Inventories

(millions of Canadian dollars, unaudited)		**As at June 30, 2015**		As at December 31, 2014
Pulp	**$**	**91.0**	$	68.8
Paper		**18.4**		17.4
Wood chips and logs		**10.1**		12.1
Materials and supplies		**50.1**		45.4
	$	**169.6**	$	143.7

At June 30, 2015, the inventory write-down in order to record inventory at the lower of cost and net realizable value was $1.0 million (December 31, 2014 – nil).

3. Operating Loans

Available Operating Loans

(millions of Canadian dollars, unaudited)		**As at June 30, 2015**		As at December 31, 2014
Operating loan facility	**$**	**110.0**	$	110.0
Facility for letters of credit related to energy agreements		**20.0**		20.0
Total operating loan and credit facility		**130.0**		130.0
Operating loan drawn		**-**		-
Energy letters of credit		**(11.6)**		(12.2)
Total available operating loan and letters of credit facility	**$**	**118.4**	$	117.8

The terms of the Company'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 the lenders' Canadian prime rate, bankers acceptances, US dollar base rate or US dollar LIBOR rate, plus a margin. The facility has certain financial covenants that stipulate maximum net debt to total capitalization ratios and minimum net worth amounts based on shareholders' equity. The maturity date of this facility is January 31, 2018.

The Company has a separate facility to cover energy-related letters of credit. During the second quarter of 2015, the Company extended the maturity on this facility to June 30, 2016. At June 30, 2015, $9.4 million of energy-related letters of credit were covered under this facility with the balance of $2.2 million covered under the Company's general operating loan facility.

As at June 30, 2015, the Company was in compliance with all covenants relating to its operating loans.

4. Employee Future Benefits

For the three months ended June 30, 2015, defined benefit actuarial gains of $6.1 million (before tax) were recognized in other comprehensive income. The gains recorded in the second quarter of 2015 principally reflect a higher discount rate used to value the net defined benefit obligations. For the six months ended June 30, 2015, gains of $3.1 million (before tax) were recognized in other comprehensive income. For the three months ended June 30, 2014, an amount of $2.4 million (before tax) was charged to other comprehensive income, and for the six months ended June 30, 2014, the losses were $11.6 million (before tax).

For the Company's employee future 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 $26.4 million.

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

	Pension Benefit Plans	**Other Benefit Plans**
June 30, 2015	**3.90%**	**3.90%**
March 31, 2015	3.60%	3.60%
December 31, 2014	3.90%	3.90%
June 30, 2014	4.30%	4.40%
March 31, 2014	4.40%	4.50%
December 31, 2013	4.80%	4.90%

5. Financial Instruments

CPPI's cash and cash equivalents, accounts receivable, loans and advances, operating loans, accounts payable and accrued liabilities, and long-term debt are measured at amortized cost subsequent to initial recognition. At June 30, 2015, the fair value of the Company's long-term debt approximates its amortized cost of $50.0 million (December 31, 2014 – $50.0 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 Company uses a variety of derivative financial instruments to reduce its exposure to risks associated with fluctuations in foreign exchange rates, pulp prices, energy costs, and floating interest rates on long-term debt.

At June 30, 2015, the fair value of derivative financial instruments was a net liability of $1.9 million (December 31, 2014 – net liability of $1.0 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 gains (losses) on level 2 derivative financial instruments for the three and six month periods ended June 30, 2015 and 2014:

(millions of Canadian dollars, unaudited)	3 months ended June 30, **2015**	3 months ended June 30, 2014	6 months ended June 30, **2015**	6 months ended June 30, 2014
Foreign exchange collars	**$ 4.0**	$ 1.0	**$ (5.0)**	$ -
Crude oil collars	**0.6**	-	**0.2**	-
Interest rate swaps	**-**	-	**-**	(0.1)
Pulp futures	**-**	(0.4)	**-**	(0.7)
Gain (loss) on derivative financial instruments	**$ 4.6**	$ 0.6	**$ (4.8)**	$ (0.8)

6. Income Taxes

(millions of Canadian dollars, unaudited)	3 months ended June 30, **2015**	3 months ended June 30, 2014	6 months ended June 30, **2015**	6 months ended June 30, 2014
Current	**$ (3.5)**	$ (5.9)	**$ (16.2)**	$ (10.9)
Deferred	**(2.4)**	(0.5)	**0.6**	(4.2)
Income tax expense	**$ (5.9)**	$ (6.4)	**$ (15.6)**	$ (15.1)

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

(millions of Canadian dollars, unaudited)	3 months ended June 30, **2015**	3 months ended June 30, 2014	6 months ended June 30, **2015**	6 months ended June 30, 2014
Income tax expense at statutory rate 2015 – 26.0% (2014 – 26.0%)	**$ (6.1)**	$ (6.6)	**$ (15.9)**	$ (15.5)
Add (deduct):				
Entities with different income tax rates and other tax adjustments	**0.2**	0.2	**0.3**	0.5
Permanent difference from capital gains and other non-deductible items	**-**	-	**-**	(0.1)
Income tax expense	**$ (5.9)**	$ (6.4)	**$ (15.6)**	$ (15.1)

In addition to the amounts recorded to net income, a tax expense of $1.6 million was recorded in other comprehensive income for the three month period ended June 30, 2015 (three months ended June 30, 2014 – recovery of $0.6 million) in relation to the actuarial gains (losses) on defined benefit employee compensation plans. For the six month period ended June 30, 2015, a tax expense of $0.8 million was recorded to other comprehensive income (six months ended June 30, 2014 – recovery of $3.0 million).

7. Earnings per Share and Normal Course Issuer Bid

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

	3 months ended June 30, **2015**	3 months ended June 30, 2014	6 months ended June 30, **2015**	6 months ended June 30, 2014
Weighted average number of common shares	**70,262,911**	71,007,341	**70,533,749**	71,007,341

On March 5, 2015, the Company renewed its normal course issuer bid whereby it can purchase for cancellation up to 3,541,491 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 second quarter of 2015, CPPI purchased 137,855 common shares for $2.0 million (an average of $14.51 per common share), which was paid in the quarter. In addition, $5.3 million was paid in the current quarter for share purchases relating to the previous quarter. As a result of the share purchases during the quarter, Canfor's interest in CPPI increased to 51.0% by quarter end. As at July 21, 2015, there were 70,202,258 common shares of the Company outstanding.

8. Net Change in Non-Cash Working Capital

(millions of Canadian dollars, unaudited)	3 months ended June 30, 2015	3 months ended June 30, 2014	6 months ended June 30, 2015	6 months ended June 30, 2014
Accounts receivable	**$ (0.8)**	$ (8.5)	**$ (15.6)**	$ (8.0)
Inventories	**2.9**	3.4	**(10.3)**	(18.0)
Prepaid expenses and other assets	**0.4**	0.8	**6.1**	3.1
Accounts payable and accrued liabilities	**(3.6)**	15.0	**9.2**	13.7
Net decrease (increase) in non-cash working capital	**$ (1.1)**	$ 10.7	**$ (10.6)**	$ (9.2)

9. Segment Information

The Company has two reportable segments which operate as separate business units and represent separate product lines.

Sales between the pulp and paper segments are accounted for at prices that approximate fair value. These include sales of slush pulp from the pulp segment to the paper segment.

(millions of Canadian dollars, unaudited)	Pulp	Paper	Unallocated	Elimination Adjustment	Consolidated
3 months ended June 30, 2015					
Sales to external customers	**$ 234.0**	**42.0**	**-**	**-**	**$ 276.0**
Sales to other segments	**$ 21.0**	-	**-**	**(21.0)**	**$ -**
Operating income (loss)	**$ 18.1**	**5.7**	**(2.9)**	**-**	**$ 20.9**
Amortization	**$ 14.7**	**0.8**	**-**	**-**	**$ 15.5**
Capital expenditures[1]	**$ 9.7**	**3.1**	**-**	**-**	**$ 12.8**
3 months ended June 30, 2014					
Sales to external customers	$ 207.8	44.5	0.2	-	$ 252.5
Sales to other segments	$ 23.0	-	-	(23.0)	$ -
Operating income (loss)	$ 28.8	3.8	(3.0)	-	$ 29.6
Amortization	$ 14.4	0.8	-	-	$ 15.2
Capital expenditures[1]	$ 19.9	0.3	-	-	$ 20.2
6 months ended June 30, 2015					
Sales to external customers	**$ 465.7**	**82.6**	**1.5**	**-**	**$ 549.8**
Sales to other segments	**$ 45.9**	**-**	**-**	**(45.9)**	**$ -**
Operating income (loss)	**$ 54.4**	**13.6**	**(5.7)**	**-**	**$ 62.3**
Amortization	**$ 29.5**	**1.7**	**-**	**-**	**$ 31.2**
Capital expenditures[1]	**$ 22.4**	**3.8**	**-**	**-**	**$ 26.2**
Identifiable assets	**$ 712.3**	**62.3**	**99.7**	**-**	**$ 874.3**
6 months ended June 30, 2014					
Sales to external customers	$ 398.5	79.3	1.1	-	$ 478.9
Sales to other segments	$ 47.5	-	-	(47.5)	$ -
Operating income (loss)	$ 63.8	8.3	(6.1)	-	$ 66.0
Amortization	$ 29.5	1.7	-	-	$ 31.2
Capital expenditures[1]	$ 29.8	0.4	-	-	$ 30.2
Identifiable assets	$ 695.2	60.6	55.4	-	$ 811.2

[1] Capital expenditures represent cash paid for capital assets during the periods and include capital expenditures that were partially financed by government grants. Capital expenditures for the six months ended June 30, 2015 exclude the assets purchased as part of the acquisition of the Taylor Pulp Mill (Note 11).

10. Related Party Transactions

The Company depends on Canfor to provide approximately 60.0% (2014 – 59.0%) of its fibre supply as well as certain key business and administrative services. As a result of these relationships the Company considers its operations to be dependent on its ongoing relationship with Canfor. The transactions with Canfor are consistent with the transactions described in the December 31, 2014 audited consolidated financial statements of CPPI and are based on agreed upon amounts between the parties.

Transactions and payables to Canfor include purchases of wood chips, logs, pulp and administrative services. These are summarized below:

	3 months ended June 30,		6 months ended June 30,	
(millions of Canadian dollars, unaudited)	**2015**	2014	**2015**	2014
Transactions				
Purchase of wood chips and other	**$ 38.4**	$ 32.0	**$ 76.3**	$ 67.0

(millions of Canadian dollars, unaudited)	**As at June 30, 2015**	As at December 31, 2014
Balance Sheet		
Included in accounts payable and accrued liabilities:	**$ 17.8**	$ 18.0
Included in trade and other accounts receivable:	**$ 0.1**	$ 1.7

11. Purchase of Taylor Pulp Mill

On January 30, 2015, CPPI completed the purchase of the Taylor Pulp Mill from Canfor for cash consideration of $12.6 million including final working capital. The acquisition 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, CPPI may also pay contingent consideration to Canfor, based on the Taylor Pulp Mill's annual adjusted operating income before amortization over a three year period, starting January 31, 2015. On the acquisition date, the fair value of the contingent consideration was $1.8 million and was recorded as a long-term provision. CPPI recognized long-term assets acquired net of liabilities assumed at a fair value of $2.8 million and net working capital of $11.6 million. The acquisition has been accounted for in accordance with IFRS 3 *Business Combinations.*

If the acquisition had occurred on January 1, 2015, CPPI's consolidated sales for the six months ended June 30, 2015 would have increased by approximately $8.9 million and consolidated net income for the six months ended June 30, 2015 would have increased by approximately $0.2 million. The Taylor Pulp Mill's results are recorded in the pulp segment.

During the second quarter of 2015, CPPI reversed the $1.8 million contingent consideration provision resulting in a gain recorded to Other Income to reflect lower forecast Bleached Chemi-Thermo Mechanical Pulp prices over the contingent consideration period.

12. Subsequent Event

On July 21, 2015, the Board of Directors declared a quarterly dividend of $0.0625 per share and a special dividend of $1.1250 per share, both payable on August 10, 2015, to the shareholders of record on August 3, 2015. The special dividend has been declared as a result of strong cash generated by the business in 2014 and 2015 to-date.