2016

CANFOR PULP PRODUCTS INC.
QUARTER ONE
INTERIM REPORT

FOR THE THREE MONTHS ENDED MAR 31, 2016

To Our Shareholders

Canfor Pulp Products Inc. ("CPPI") reported net income of $23.1 million, or $0.34 per share, for the first quarter of 2016, compared to $29.7 million, or $0.43 per share, for the fourth quarter of 2015 and $28.0 million, or $0.40 per share, for the first quarter of 2015.

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

(millions of Canadian dollars, except per share amounts)	Q1 2016	Q4 2015	Q1 2015
Sales	**$ 295.3**	$ 330.8	$ 273.8
Operating income before amortization	**$ 57.8**	$ 56.2	$ 57.1
Operating income	**$ 39.1**	$ 38.6	$ 41.4
Net income	**$ 23.1**	$ 29.7	$ 28.0
Net income per share, basic and diluted	**$ 0.34**	$ 0.43	$ 0.40
Adjusted net income	**$ 23.1**	$ 29.0	$ 35.0
Adjusted net income per share, basic and diluted	**$ 0.34**	$ 0.42	$ 0.50

The Company had no items affecting comparability in the first quarter of 2016. After adjusting for such items in the comparative periods, adjusted net income was $29.0 million, or $0.42 per share, for the fourth quarter of 2015 and $35.0 million, or $0.50 per share, for the first quarter of 2015.

The Company reported operating income of $39.1 million for the first quarter of 2016, up $0.5 million from $38.6 million reported for the fourth quarter of 2015. Results in the first quarter of 2016 reflected lower unit manufacturing costs, principally from lower fibre costs and the impact of the scheduled maintenance outage at the Northwood pulp mill in the previous quarter as well as improved paper segment earnings. Offsetting these factors were lower Northern Bleached Softwood Kraft ("NBSK") pulp shipment volumes and slightly lower NBSK pulp unit sales realizations in the current quarter.

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

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

Operating income in the Company's paper segment was up $2.0 million from the previous quarter to $8.9 million in the first quarter of 2016 largely reflecting the positive impact of the weaker Canadian dollar on unit sales realizations and an increased proportion of higher-priced prime bleached paper shipments.

During the first quarter of 2016, the Company continued to return cash to its shareholders through both its normal course issuer bid and a quarterly dividend. In total, the Company purchased 412,673 common shares and paid a dividend of $0.0625 per share returning a total of $9.3 million to common shareholders in the quarter.

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

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

On April 26, 2016, the Board of Directors declared a quarterly dividend of $0.0625 per share, payable on May 17, 2016 to the shareholders of record on May 10, 2016.

Michael J. Korenberg
Chairman

Don B. Kayne
Chief Executive Officer

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

Throughout this discussion, reference is made to Operating Income (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 the 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 the 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. Throughout this discussion reference is made to the current quarter which refers to the results for the first quarter of 2016.

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

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

Forward Looking Statements

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

FIRST QUARTER 2016 OVERVIEW

Selected Financial Information and Statistics

(millions of Canadian dollars, except per share amounts)		Q1 2016		Q4 2015		Q1 2015
Operating income (loss) by segment:						
Pulp	$	**33.0**	$	34.4	$	36.3
Paper	$	**8.9**	$	6.9	$	7.9
Unallocated	$	**(2.8)**	$	(2.7)	$	(2.8)
Total operating income	$	**39.1**	$	38.6	$	41.4
Add: Amortization	$	**18.7**	$	17.6	$	15.7
Total operating income before amortization[1]	$	**57.8**	$	56.2	$	57.1
Add (deduct):						
Working capital movements	$	**(12.8)**	$	(11.8)	$	(9.5)
Defined benefit pension plan contributions	$	**(1.2)**	$	(1.7)	$	(0.4)
Income taxes paid, net	$	**(11.6)**	$	(2.0)	$	(12.5)
Other operating cash flows, net	$	**(3.9)**	$	2.4	$	4.9
Cash from operating activities	$	**28.3**	$	43.1	$	39.6
Add (deduct):						
Dividends paid	$	**(4.3)**	$	(4.4)	$	(4.4)
Finance expenses paid	$	**(0.8)**	$	(0.7)	$	(0.5)
Capital additions, net	$	**(13.1)**	$	(27.6)	$	(13.4)
Acquisition of Taylor pulp mill	$	**-**	$	-	$	(12.6)
Share purchases	$	**(5.0)**	$	(9.6)	$	(1.7)
Other, net	$	**0.2**	$	0.1	$	0.2
Change in cash / operating loans	$	**5.3**	$	0.9	$	7.2
ROIC – Consolidated period-to-date[2]		**4.8%**		5.9%		7.2%
Average exchange rate (US$ per C$1.00)[3]	$	**0.728**	$	0.749	$	0.806

[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.
[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)		Q1 2016		Q4 2015		Q1 2015
Net income, as reported	$	**23.1**	$	29.7	$	28.0
(Gain) loss on derivative financial instruments	$	**-**	$	(0.7)	$	7.0
Net impact of above items	$	**-**	$	(0.7)	$	7.0
Adjusted net income	$	**23.1**	$	29.0	$	35.0
Net income per share (EPS), as reported	$	**0.34**	$	0.43	$	0.40
Net impact of above items per share	$	**-**	$	(0.01)	$	0.10
Adjusted net income per share	$	**0.34**	$	0.42	$	0.50

The Company reported operating income of $39.1 million for the first quarter of 2016, up $0.5 million from $38.6 million reported for the fourth quarter of 2015. Results in the first quarter of 2016 reflected lower unit manufacturing costs, principally from lower fibre costs and the impact of the scheduled maintenance outage at the Northwood pulp mill in the previous quarter as well as improved paper segment earnings. Offsetting these factors were lower Northern Bleached Softwood Kraft ("NBSK") pulp shipment volumes and slightly lower NBSK pulp unit sales realizations in the current quarter.

Global softwood pulp markets were relatively balanced through the first quarter of 2016 as increased customer restocking absorbed additional supply resulting from minimal maintenance downtime in the period. The average

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

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

Operating income in the Company's paper segment was up $2.0 million from the previous quarter to $8.9 million in the first quarter of 2016 largely reflecting the positive impact of the weaker Canadian dollar on unit sales realizations and an increased proportion of higher-priced prime bleached paper shipments.

During the first quarter of 2016, the Company continued to return cash to its shareholders through both its normal course issuer bid and a quarterly dividend. In total, the Company purchased 412,673 common shares and paid a dividend of $0.0625 per share returning a total of $9.3 million to common shareholders in the quarter.

Compared to the first quarter of 2015, operating income was down $2.3 million principally reflecting lower pulp unit sales realizations mitigated somewhat by moderately lower unit manufacturing costs and higher NBSK pulp shipments volumes in the first quarter of 2016. The average NBSK pulp list price to North America saw a decrease of US$52 per tonne, while the average list price to China saw a more significant decline of US$73 per tonne compared to the first quarter in 2015. These declines were mostly offset by an 8 cent, or 10%, weaker Canadian dollar. Improved unit manufacturing costs reflected lower energy costs, as a result of higher self-generated electricity, as well as lower fibre costs due to lower prices for sawmill residual chips and, to a lesser extent, proportionately lower whole-log chips. Contributing to the slightly lower operating income compared to the first quarter of 2015 was the decline in BCTMP list prices through 2015 offset somewhat by the weaker Canadian dollar. Improved results in the paper segment compared to the same quarter in 2015 principally reflected lower slush pulp costs and, to a lesser extent, higher paper shipments in the current quarter.

OPERATING RESULTS BY BUSINESS SEGMENT

Pulp

Selected Financial Information and Statistics – Pulp

(millions of Canadian dollars unless otherwise noted)	Q1 2016	Q4 2015	Q1 2015
Sales	**$ 249.8**	$ 286.9	$ 231.7
Operating income before amortization[4]	**$ 50.7**	$ 50.9	$ 51.1
Operating income	**$ 33.0**	$ 34.4	$ 36.3
Average pulp price delivered to US – US$[5]	**$ 943**	$ 945	$ 995
Average price in Cdn$[5]	**$ 1,295**	$ 1,262	$ 1,235
Production – pulp (000 mt)[6]	**321.8**	322.5	287.8
Shipments – pulp (000 mt)[6]	**319.1**	356.2	272.1
Marketed on behalf of Canfor (000 mt)[6]	**-**	-	15.2

4 Amortization includes amortization of certain capitalized major maintenance costs.

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

6 Pulp production and shipment volumes in 2016 and 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 acquisition, CPPI no longer markets any product on behalf of Canfor.

Overview

Operating income for the pulp segment was $33.0 million for the first quarter of 2016 down $1.4 million from the fourth quarter of 2015 and down $3.3 million from the same quarter in 2015. Pulp segment financial results and information include the Taylor BCTMP mill, which was acquired on January 30, 2015.

Overall pulp segment results in the first quarter of 2016 were broadly in line with fourth quarter of 2015 with a moderate decline in unit manufacturing costs offsetting lower pulp shipments, slightly lower NBSK pulp unit sales realizations and lower energy revenues in the current quarter. The improvement in unit manufacturing costs was partly a result of the scheduled Northwood maintenance outage in the previous quarter, a decrease in energy costs and lower fibre costs in the first quarter of 2016. No scheduled maintenance outages were taken in the first quarter of 2016.

Compared to the first quarter of 2015, operating results in the pulp segment were down slightly as moderately lower manufacturing costs, resulting from lower energy and fibre costs as well as higher NBSK pulp shipments, largely offset lower unit sales realizations.

Markets

Global softwood pulp markets were relatively balanced through the first quarter of 2016. The softwood industry historically takes minimal maintenance downtime during this period, which was offset in part by increased demand, primarily from China, driven by consumer restocking. Pulp producer inventories ended the quarter in the balanced range at 30 days of supply, an increase of 1 day from December 2015[7], however, they were 3 days below the March 2015 level. Market conditions are generally considered balanced when inventories are in the 27-30 days of supply range.

Global shipments of bleached softwood kraft pulp were in line with the previous quarter as increased shipments to China were offset by a slight decrease in shipments to North America. Compared to the first quarter of 2015 global shipments of bleached softwood kraft pulp to China and North America were higher[8].

7 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").

8 As reported PPPC statistics.

Sales

Total pulp shipments in the first quarter of 2016 were 319,100 tonnes, down 37,100 tonnes, or 10%, from the fourth quarter of 2015 and up 47,000 tonnes, or 17%, from the first quarter of 2015. Pulp shipments returned to more normalized levels in the first quarter of 2016 following strong shipments in the previous quarter. Compared to the first quarter of 2015 the increase in total pulp shipments was primarily attributable to incremental production from the BCTMP Taylor pulp mill and, to a lesser extent, improved NBSK pulp productivity in the first quarter of 2016.

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

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

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

Operations

Pulp production in the first quarter of 2016 at 321,800 tonnes was broadly in line with the previous quarter and up 34,000 tonnes, or 12%, from the same quarter in 2015. Operating rates in the current quarter were relatively consistent with the fourth quarter of 2015 with fewer operating days in the current quarter mostly offsetting the quarter-over-quarter impact of the scheduled maintenance outage at the Northwood pulp mill, which reduced market pulp production by 20,000 tonnes in the fourth quarter of 2015. BCTMP production was in line with the previous quarter and made up approximately 17% of the Company's total pulp production in the first quarter of 2016. The significant increase in pulp production compared to the first quarter of the 2015 principally reflected incremental BCTMP production from the Taylor pulp mill following the acquisition on January 30, 2015 as well as improved NBSK pulp operating rates in the first quarter of 2016.

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

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

Paper

Selected Financial Information and Statistics – Paper

(millions of Canadian dollars unless otherwise noted)	Q1 2016	Q4 2015	Q1 2015
Sales	**$ 45.2**	$ 43.6	$ 40.6
Operating income before amortization[9]	**$ 9.9**	$ 7.9	$ 8.8
Operating income	**$ 8.9**	$ 6.9	$ 7.9
Production – paper (000 mt)	**35.3**	35.8	35.4
Shipments – paper (000 mt)	**34.9**	35.4	32.1

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

Overview

Operating income for the paper segment at $8.9 million for the first quarter of 2016 was up $2.0 million from the fourth quarter of 2015 and up $1.0 million from the same quarter in the prior year. Compared to the fourth quarter of 2015 the increase in operating income reflected improved unit sales realizations principally the result of a higher value sales mix in the current quarter as well as lower unit manufacturing costs. Compared to the first quarter of 2015, improved paper segment results reflected lower slush pulp costs and, to a lesser extent, increased paper shipments volumes in the current quarter.

Markets

Increased supply from offshore producers resulted in pressure on North American paper prices in the first quarter of 2016. Compared to the first quarter of 2015, the Paper Shipping Sack Manufacturer's Association ("PSSMA") reported that Sack Kraft Paper shipments were down approximately 6%.

Sales

The Company's paper shipments in the first quarter of 2016 at 34,900 tonnes were broadly in line with the previous quarter and up 2,800 tonnes or 9% from the first quarter in 2015. Total paper shipments in the current quarter included proportionately higher volumes sold to the US market. Prime bleached paper shipments, which attract higher prices, made up approximately 5% more of total paper shipments compared to the fourth quarter of 2015 and were broadly in line with the same quarter in 2015.

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

Operations

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

Unallocated Items

Selected Financial Information

(millions of Canadian dollars)		Q1 2016		Q4 2015		Q1 2015
Corporate costs	**$**	**(2.8)**	$	(2.7)	$	(2.8)
Finance expense, net	**$**	**(1.6)**	$	(1.7)	$	(1.3)
Gain (loss) on derivative financial instruments	**$**	**-**	$	0.9	$	(9.4)
Foreign exchange gain (loss) on working capital and other income (expense), net	**$**	**(6.6)**	$	1.9	$	7.0

Corporate costs at $2.8 million for the first quarter of 2016 were consistent with both comparative periods.

Net finance expense for the first quarter of 2016 was $1.6 million, in line with the previous quarter and up slightly from the first quarter of 2015. The slight increase in finance expense compared to the same quarter in 2015 principally reflected higher interest earned in the first quarter of 2015 as a result of higher cash balances at the beginning of 2015. Interest earned is reported net of interest expense.

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. In the first quarter of 2016, the Company had no derivative financial instruments outstanding.

Foreign exchange loss on working capital and other expense, net for the first quarter of 2016 of $6.6 million reflected unfavourable exchange movements on US dollar denominated cash, receivables and payables, resulting from the strengthening of the Canadian dollar later in the quarter.

Other Comprehensive Income (Loss)

In the first quarter of 2016, the Company recorded an after-tax loss of $3.5 million in relation to changes in the valuation of the Company's employee future benefit plans. The loss principally reflected a lower return on plan assets coupled with a slightly lower discount rate used to value the employee future benefit plans. This compared to an after-tax gain of $0.5 million in the previous quarter and an after-tax loss of $2.2 million in the first quarter of 2015.

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)		Q1 2016		Q4 2015		Q1 2015
Increase in cash and cash equivalents	**$**	**5.3**	$	0.9	$	7.2
Operating activities	**$**	**28.3**	$	43.1	$	39.6
Financing activities	**$**	**(10.1)**	$	(14.7)	$	(6.6)
Investing activities	**$**	**(12.9)**	$	(27.5)	$	(25.8)
Ratio of current assets to current liabilities		**2.4 : 1**		2.1 : 1		2.3 : 1
Net debt to capitalization		**5.3%**		6.3%		(7.2)%

Changes in Financial Position

Cash generated from operating activities was $28.3 million in the first quarter of 2016, down $14.8 million from the previous quarter and down $11.3 million from the first quarter of 2015. Lower operating cash flows from the previous quarter primarily reflected an increase in non-cash working capital and higher tax installments in the current quarter. The increase in non-cash working capital related to seasonally-higher residual chip and pulp log inventories, and higher finished pulp inventory levels as well as foreign exchange losses on US-dollar working capital balances.

A seasonal build in log inventories and strong productivity rates at Canfor's sawmills in the first quarter of 2016 resulted in higher pulp log and chip inventory levels for CPPI at the end of the quarter. Finished pulp inventory levels were also somewhat higher at the end of the quarter principally reflecting the timing of shipments.

Cash used for financing activities was $10.1 million in the first quarter of 2016, down $4.6 million from the previous quarter and up $3.5 million from the first quarter of 2015. Cash flows in the current period included payment of a quarterly dividend for $4.3 million ($0.0625 per share) as well as $5.0 million for shares purchased under the

Company's normal course issuer bid. This compares to $9.6 million and $1.7 million paid for shares purchased in the fourth quarter of 2015 and first quarter of 2015, respectively (see further discussion of the shares purchased under the normal course issuer bid in the following "Liquidity and Financial Requirements" section). Interest paid during the quarter was $0.8 million and was broadly in line with both comparative periods. No amounts were drawn against the Company's operating loan facility at the end of the first quarter of 2016.

Cash used for investing activities of $12.9 million in the current quarter primarily related to maintenance-of-business capital expenditures and energy-related projects that were completed in previous quarters but the final payments made in early 2016.

Liquidity and Financial Requirements

At March 31, 2016, CPPI had cash of $22.8 million and operating loan facilities of $130.0 million which were unused, except for $9.1 million reserved for several standby letters of credit.

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 7, 2016, the Company renewed its normal course issuer bid whereby it can purchase for cancellation up to 3,446,139 common shares or approximately 5% of its issued and outstanding common shares as of March 1, 2016. The renewed normal course issuer bid is set to expire on March 6, 2017. During the first quarter of 2016, CPPI purchased 412,673 common shares for $4.9 million (an average of $11.87 per common share). Cash payments for share purchases in the first quarter of 2015 were $5.0 million and included $0.1 million for shares purchased at the end of December 2015. As at April 26, 2016, Canfor's ownership interest in CPPI was 52.4%. The Company may purchase more shares through the balance of 2016 subject to the terms of the normal course issuer bid.

Dividends

On April 26, 2016, the Board of Directors declared a quarterly dividend of $0.0625 per share, payable on May 17, 2016, to the shareholders of record on May 10, 2016.

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 working capital. The acquisition also included 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 was accounted for in accordance with IFRS 3, *Business Combinations.*

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

In 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. The fair value of the contingent consideration provision was nil at March 31, 2016.

OUTLOOK

Pulp Markets

Global softwood pulp markets are relatively balanced heading into the annual spring maintenance period. Reduced capacity as a result of spring maintenance may support modest price increases through the second quarter for NBSK pulp. A risk of price weakness in the latter half of 2016 remains due in part to previously announced significant new pulp capacity forecast to come online through 2016. For the month of May 2016, the Company announced NBSK pulp list prices of US$980 per tonne in North America an increase of US$30 per tonne from March 2016. The recent strengthening of the Canadian dollar is anticipated to offset improvements in US-dollar prices in the second quarter of 2016.

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

Paper Markets

Paper demand in North America is projected to remain steady heading into the second quarter of 2016. Offshore paper producers have been active in the North American market as they look to sell excess capacity and the recent anti-dumping duties imposed by China make that market less appealing. In addition, currency movements will continue to influence the attractiveness of North America as an alternate market, which may put pressure on prices.

There are no maintenance outages planned at the Company's Prince George Kraft paper machine in the second quarter of 2016. The company's annual maintenance outage is planned for the third quarter of 2016.

OUTSTANDING SHARES

At April 26, 2016, there were 68,313,699 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 May 2014, the International Accounting Standards Board ("IASB") issued IFRS 15, *Revenue from Contracts with Customers*, which will supersede IAS 18, *Revenue*, IAS 11, *Construction Contracts* and related interpretations. The new standard is effective for annual periods beginning on or after January 1, 2018. The Company is in the process of assessing the impact, if any, on the financial statements of this new standard.

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

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

INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

RISKS AND UNCERTAINTIES

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

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.

SELECTED QUARTERLY FINANCIAL INFORMATION

	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015	Q4 2014	Q3 2014	Q2 2014
Sales and income (millions of Canadian dollars)								
Sales	**$ 295.3**	$ 330.8	$ 294.1	$ 276.0	$ 273.8	$ 264.0	$ 237.6	$ 252.5
Operating income before amortization[10]	**$ 57.8**	$ 56.2	$ 58.7	$ 36.4	$ 57.1	$ 43.2	$ 47.7	$ 44.8
Operating income	**$ 39.1**	$ 38.6	$ 42.3	$ 20.9	$ 41.4	$ 28.0	$ 31.4	$ 29.6
Net income	**$ 23.1**	$ 29.7	$ 31.2	$ 17.7	$ 28.0	$ 20.7	$ 24.3	$ 18.8
Per common share (Canadian dollars)								
Net income – basic and diluted	**$ 0.34**	$ 0.43	$ 0.45	$ 0.25	$ 0.40	$ 0.29	$ 0.34	$ 0.27
Book value[11]	**$ 7.15**	$ 6.96	$ 6.65	$ 7.40	$ 7.17	$ 6.92	$ 6.86	$ 6.56
Dividends declared[12]	**$ 0.0625**	$ 0.0625	$ 0.0625	$ 1.1875	$ 0.0625	$ 0.0625	$ 0.0625	$ 0.0625
Statistics								
Pulp shipments (000 mt)	**319.1**	356.2	307.4	291.9	272.1	258.6	240.5	246.9
Paper shipments (000 mt)	**34.9**	35.4	32.1	33.8	32.1	35.8	35.7	39.7
Average exchange rate – US$/Cdn$	**$ 0.728**	$ 0.749	$ 0.764	$ 0.813	$ 0.806	$ 0.881	$ 0.918	$ 0.917
Average NBSK pulp list price delivered to US (US$)	**$ 943**	$ 945	$ 967	$ 980	$ 995	$ 1,025	$ 1,030	$ 1,030

[10] Amortization includes certain capitalized major maintenance costs.
[11] 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.
[12] Dividends declared in Q2 2015 included a quarterly dividend of $0.0625 per share and a special dividend of $1.1250 per share.

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)	**Q1 2016**	Q4 2015	Q3 2015	Q2 2015	Q1 2015	Q4 2014	Q3 2014	Q2 2014
Net income, as reported	**$ 23.1**	$ 29.7	$ 31.2	$ 17.7	$ 28.0	$ 20.7	$ 24.3	$ 18.8
(Gain) loss on derivative financial instruments	**$ -**	$ (0.7)	$ 3.6	$ (3.4)	$ 7.0	$ 0.6	$ 0.2	$ (0.4)
Mark-to market gain on Taylor Pulp contingent consideration[13]	**$ -**	$ -	$ -	$ (1.3)	$ -	$ -	$ -	$ -
Net impact of above items	**$ -**	$ (0.7)	$ 3.6	$ (4.7)	$ 7.0	$ 0.6	$ 0.2	$ (0.4)
Adjusted net income	**$ 23.1**	$ 29.0	$ 34.8	$ 13.0	$ 35.0	$ 21.3	$ 24.5	$ 18.4
Net income per share (EPS), as reported	**$ 0.34**	$ 0.43	$ 0.45	$ 0.25	$ 0.40	$ 0.29	$ 0.34	$ 0.27
Net impact of above items per share[14]	**$ -**	$ (0.01)	$ 0.05	$ (0.07)	$ 0.10	$ 0.01	$ -	$ (0.01)
Adjusted net income per share	**$ 0.34**	$ 0.42	$ 0.50	$ 0.18	$ 0.50	$ 0.30	$ 0.34	$ 0.26

[13] 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 2015, the contingent consideration liability was revalued to nil, resulting in a gain of $1.8 million (before tax) recorded to Other Income (see further discussion in the "Purchase of Taylor Pulp Mill" section).
[14] The year-to-date net impact of the adjusting items per share and adjusted net income per share does not equal the sum of the quarterly per share amounts due to rounding.

Canfor Pulp Products Inc.
Condensed Consolidated Balance Sheets

(millions of Canadian dollars, unaudited)		As at March 31, 2016		As at December 31, 2015
ASSETS				
Current assets				
Cash and cash equivalents	**$**	**22.8**	$	17.5
Accounts receivable - Trade		**97.9**		101.8
- Other		**17.6**		17.5
Inventories (Note 2)		**173.7**		163.8
Prepaid expenses		**8.6**		7.5
Total current assets		**320.6**		308.1
Property, plant and equipment		**521.6**		532.3
Other long-term assets		**0.9**		0.9
Total assets	**$**	**843.1**	$	841.3
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	**$**	**133.5**	$	144.2
Total current liabilities		**133.5**		144.2
Long-term debt		**50.0**		50.0
Retirement benefit obligations (Note 4)		**98.7**		93.0
Other long-term provisions		**6.1**		6.2
Deferred income taxes, net		**64.7**		68.2
Total liabilities	**$**	**353.0**	$	361.6
EQUITY				
Share capital	**$**	**505.2**	$	508.2
Retained earnings (deficit)		**(15.1)**		(28.5)
Total equity	**$**	**490.1**	$	479.7
Total liabilities and equity	**$**	**843.1**	$	841.3

Subsequent Event (Note 12)

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

APPROVED BY THE BOARD

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 March 31, **2016**	2015
Sales	**$ 295.3**	$ 273.8
Costs and expenses		
Manufacturing and product costs	**187.8**	171.1
Freight and other distribution costs	**42.5**	38.1
Amortization	**18.7**	15.7
Selling and administration costs	**7.2**	7.5
	256.2	232.4
Operating income	**39.1**	41.4
Finance expense, net	**(1.6)**	(1.3)
Loss on derivative financial instruments (Note 5)	**-**	(9.4)
Foreign exchange gain (loss) on working capital and other income (expense), net	**(6.6)**	7.0
Net income before income taxes	**30.9**	37.7
Income tax expense (Note 6)	**(7.8)**	(9.7)
Net income	**$ 23.1**	$ 28.0
Net income per common share: (in Canadian dollars)		
Attributable to equity shareholders of the Company		
- Basic and diluted (Note 7)	**$ 0.34**	$ 0.40

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

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

(millions of Canadian dollars, unaudited)	3 months ended March 31, **2016**	2015
Net income	**$ 23.1**	$ 28.0
Other comprehensive loss		
Items that will not be recycled through net income:		
Defined benefit plan actuarial losses (Note 4)	**(4.7)**	(3.0)
Income tax recovery on defined benefit plan actuarial losses (Note 6)	**1.2**	0.8
Other comprehensive loss, net of tax	**(3.5)**	(2.2)
Total comprehensive income	**$ 19.6**	$ 25.8

Condensed Consolidated Statements of Changes in Equity

(millions of Canadian dollars, unaudited)	3 months ended March 31, **2016**	2015
Share capital		
Balance at beginning of period	**$ 508.2**	$ 522.1
Share purchases (Note 7)	**(3.0)**	(3.6)
Balance at end of period	**$ 505.2**	$ 518.5
Retained earnings (deficit)		
Balance at beginning of period	**$ (28.5)**	$ (32.5)
Net income	**23.1**	28.0
Defined benefit plan actuarial losses, net of tax	**(3.5)**	(2.2)
Dividends declared	**(4.3)**	(4.4)
Share purchases (Note 7)	**(1.9)**	(3.4)
Balance at end of period	**$ (15.1)**	$ (14.5)
Total equity	**$ 490.1**	$ 504.0

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 March 31, 2016	2015
Cash generated from (used in):		
Operating activities		
Net income	**$ 23.1**	$ 28.0
Items not affecting cash:		
Amortization	**18.7**	15.7
Income tax expense	**7.8**	9.7
Changes in mark-to-market value of derivative financial instruments	**-**	7.0
Employee future benefits	**1.3**	1.4
Finance expense, net	**1.6**	1.3
Other, net	**1.4**	(1.1)
Defined benefit pension plan contributions, net	**(1.2)**	(0.4)
Income taxes paid, net	**(11.6)**	(12.5)
	41.1	49.1
Net change in non-cash working capital (Note 8)	**(12.8)**	(9.5)
	28.3	39.6
Financing activities		
Finance expenses paid	**(0.8)**	(0.5)
Dividends paid	**(4.3)**	(4.4)
Share purchases (Note 7)	**(5.0)**	(1.7)
	(10.1)	(6.6)
Investing activities		
Additions to property, plant and equipment, net	**(13.1)**	(13.4)
Acquisition of Taylor pulp mill (Note 11)	**-**	(12.6)
Other, net	**0.2**	0.2
	(12.9)	(25.8)
Increase in cash and cash equivalents*	**5.3**	7.2
Cash and cash equivalents at beginning of period*	**17.5**	76.8
Cash and cash equivalents at end of period*	**$ 22.8**	$ 84.0

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

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

1. Basis of Preparation

These condensed consolidated interim financial statements (the "financial statements") have been prepared in accordance with International Accounting Standard ("IAS") 34 *Interim Financial Reporting*, and include the accounts of Canfor Pulp Products Inc. ("CPPI") and its subsidiary entities, hereinafter referred to as "CPPI" or "the Company." At April 26 2016, Canfor Corporation ("Canfor") held a 52.4% 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, 2015, available at www.canfor.com or www.sedar.com.

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

Accounting Standards Issued and Not Applied

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

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

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

2. Inventories

(millions of Canadian dollars, unaudited)		**As at March 31, 2016**		As at December 31, 2015
Pulp	**$**	**73.8**	$	71.2
Paper		**21.2**		20.9
Wood chips and logs		**27.2**		21.9
Materials and supplies		**51.5**		49.8
	$	**173.7**	$	163.8

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

3. Operating Loans

Available Operating Loans

(millions of Canadian dollars, unaudited)		**As at March 31, 2016**		As at December 31, 2015
Operating loan facility	**$**	**110.0**	$	110.0
Facility for letters of credit		**20.0**		20.0
Total operating loans		**130.0**		130.0
Letters of credit		**(9.1)**		(13.0)
Total available operating loans	**$**	**120.9**	$	117.0

The terms of the Company's operating loan facility include interest payable at floating rates that vary depending on the ratio of 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 including a covenant based on maximum debt to total capitalization of the Company. In 2015, the maturity date of this facility was extended to January 31, 2019 and the minimum net worth financial covenant which was based on shareholders' equity was removed.

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

As at March 31, 2016, the Company was in compliance with all covenants relating to its operating loans.

4. Employee Future Benefits

For the three months ended March 31, 2016, defined benefit actuarial losses of $4.7 million (before tax) were recognized in other comprehensive loss. The losses recorded in the first quarter of 2016 principally reflect a lower return on plan assets and a slightly lower discount rate used to value the net defined benefit obligations. For the three months ended March 31, 2015, an amount of $3.0 million (before tax) was charged to other comprehensive loss.

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 $26.3 million.

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

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

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 March 31, 2016, the fair value of the Company's long-term debt approximates its amortized cost of $50.0 million (December 31, 2015 - $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. As at March 31, 2016 and December 31, 2015, the Company had no derivative financial instruments outstanding.

The following table summarizes the losses on level 2 derivative financial instruments for the three-month periods ended March 31, 2016 and 2015:

	3 months ended March 31,	
(millions of Canadian dollars, unaudited)	**2016**	2015
Foreign exchange collars	**$ -**	$ (9.0)
Crude oil collars	**-**	(0.4)
Loss on derivative financial instruments	**$ -**	$ (9.4)

6. Income Taxes

	3 months ended March 31,	
(millions of Canadian dollars, unaudited)	**2016**	2015
Current	**$ (10.0)**	$ (12.7)
Deferred	**2.2**	3.0
Income tax expense	**$ (7.8)**	$ (9.7)

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

	3 months ended March 31,	
(millions of Canadian dollars, unaudited)	**2016**	2015
Income tax expense at statutory rate 2016 - 26.0% (2015 - 26.0%)	**$ (8.0)**	$ (9.8)
Add:		
Entities with different income tax rates and other tax adjustments	**0.2**	0.1
Income tax expense	**$ (7.8)**	$ (9.7)

In addition to the amounts recorded to net income, a tax recovery of $1.2 million was recorded in other comprehensive loss for the three months ended March 31, 2016 (three months ended March 31, 2015 - tax recovery of $0.8 million) in relation to the actuarial losses on defined benefit employee compensation plans.

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 March 31,	
	2016	2015
Weighted average number of common shares	**68,865,554**	70,807,596

On March 7, 2016, the Company renewed its normal course issuer bid whereby it can purchase for cancellation up to 3,446,139 common shares or approximately 5% of its issued and outstanding common shares as of March 1, 2016. The renewed normal course issuer bid is set to expire on March 6, 2017. During the first quarter of 2016, CPPI purchased 412,673 common shares for $4.9 million (an average of $11.87 per common share). As at April 26, 2016, there were 68,313,699 common shares of the Company outstanding and Canfor's ownership interest in CPPI was 52.4%.

8. Net Change in Non-Cash Working Capital

	3 months ended March 31,	
(millions of Canadian dollars, unaudited)	**2016**	2015
Accounts receivable	**$ 2.5**	$ (14.8)
Inventories	**(9.9)**	(13.2)
Prepaid expenses	**(1.1)**	5.7
Accounts payable and accrued liabilities	**(4.3)**	12.8
Net increase in non-cash working capital	**$ (12.8)**	$ (9.5)

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 March 31, 2016							
Sales to external customers	**$**	**249.8**	**45.2**	**0.3**	**-**	**$**	**295.3**
Sales to other segments	**$**	**22.8**	**-**	**-**	**(22.8)**	**$**	**-**
Operating income (loss)	**$**	**33.0**	**8.9**	**(2.8)**	**-**	**$**	**39.1**
Amortization	**$**	**17.7**	**1.0**	**-**	**-**	**$**	**18.7**
Capital expenditures[1]	**$**	**12.9**	**0.2**	**-**	**-**	**$**	**13.1**
Identifiable assets	**$**	**742.8**	**62.9**	**37.4**	**-**	**$**	**843.1**
3 months ended March 31, 2015							
Sales to external customers	$	231.7	40.6	1.5	-	$	273.8
Sales to other segments	$	24.9	-	-	(24.9)	$	-
Operating income (loss)	$	36.3	7.9	(2.8)	-	$	41.4
Amortization	$	14.8	0.9	-	-	$	15.7
Capital expenditures[1]	$	12.7	0.7	-	-	$	13.4
Identifiable assets	$	710.7	62.4	99.0	-	$	872.1

[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 three months ended March 31, 2015 exclude the assets purchased as part of the acquisition of the Taylor pulp mill (Note 11).

10. Related Party Transactions

During the first quarter of 2016, the Company depended on Canfor to provide approximately 64% (three months ended March 31, 2015 - 61%) 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, 2015 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, hog fuel and administrative services. These are summarized below:

		3 months ended March 31,		
(millions of Canadian dollars, unaudited)		**2016**		2015
Transactions				
Purchase of wood chips and other	**$**	**46.0**	$	37.9

(millions of Canadian dollars, unaudited)		**As at March 31, 2016**		As at December 31, 2015
Balance Sheet				
Included in accounts payable and accrued liabilities:	**$**	**9.9**	$	15.6

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 working capital. The acquisition also included 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 was accounted for in accordance with IFRS 3 *Business Combinations.*

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

Subsequent to the acquisition date, in 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. The fair value of the contingent consideration provision was nil at March 31, 2016.

12. Subsequent Event

On April 26, 2016, the Board of Directors declared a quarterly dividend of $0.0625 per share, payable on May 17, 2016, to shareholders of record on May 10, 2016.