2015

CANFOR PULP PRODUCTS INC.

MANAGEMENT'S DISCUSSION & ANALYSIS

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This Management's Discussion and Analysis ("MD&A") provides a review of Canfor Pulp Products Inc.'s ("CPPI" or "the Company") financial performance for the year ended December 31, 2015 relative to the year ended December 31, 2014, and the financial position of the Company at December 31, 2015. It should be read in conjunction with CPPI's Annual Information Form and its audited consolidated financial statements and accompanying notes for the years ended December 31, 2015 and 2014. The financial information contained in this MD&A has been prepared in accordance with International Financial Reporting Standards ("IFRS"), which is the required reporting framework for Canadian publicly accountable enterprises.

Throughout this discussion, reference is made to Operating Income before Amortization which 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 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 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 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 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 February 17, 2016.

Forward Looking Statements

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

COMPANY OVERVIEW

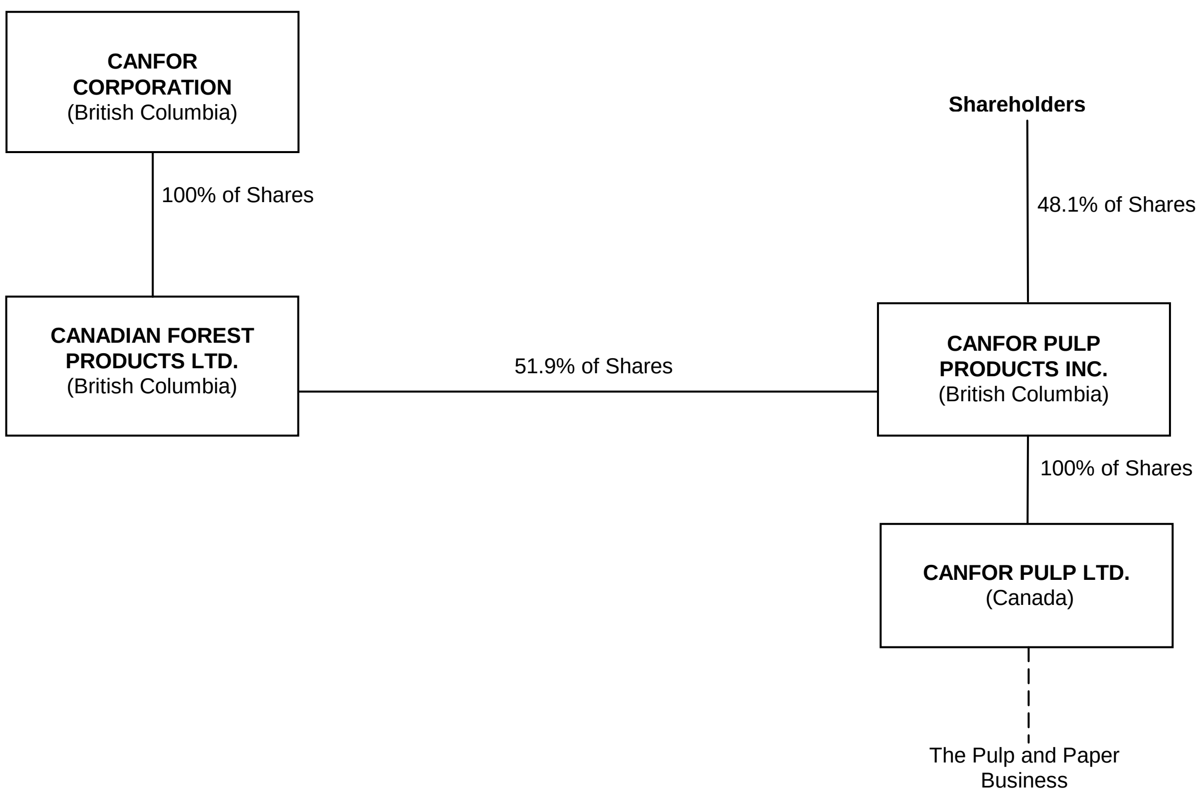
CPPI is a company incorporated and domiciled in Canada and listed on The Toronto Stock Exchange. The consolidated financial statements of the Company as at and for the year ended December 31, 2015 comprise the Company and its subsidiary entities. The Company's operations consist of two Northern Bleached Softwood Kraft ("NBSK") pulp mills and one NBSK pulp and paper mill located in Prince George, British Columbia, a Bleached Chemi-Thermo Mechanical Pulp ("BCTMP") mill located in Taylor, British Columbia and a marketing group based in Vancouver, British Columbia.

At December 31, 2015, Canfor Corporation ("Canfor") held a 51.9% interest in CPPI, an increase of 1.4% from December 31, 2014 as a result of CPPI's share purchases in 2015 under a Normal Course Issuer Bid. Further discussion of the Normal Course Issuer Bid is provided in the "Liquidity and Financial Requirements" section of this document.

CPPI employs 1,278 people in its wholly owned subsidiaries and jointly owned operations.

The following chart illustrates, on a simplified basis, the ownership structure of CPPI (collectively the Company) as at December 31, 2015.

Simplified Ownership Structure



Pulp

The Company owns and operates three NBSK pulp mills with annual capacity to produce 1.1 million tonnes of northern softwood market kraft pulp, 90% of which is bleached to become NBSK pulp and approximately 140,000 tonnes of kraft paper.

The Northwood Pulp Mill is a two line mill with annual production capacity of approximately 600,000 tonnes of NBSK pulp, making it the largest NBSK pulp facility in North America. Northwood's pulp is used to make a variety of products including printing and writing paper, tissue and specialty papers and is primarily delivered to customers in North America, Europe and Asia.

The Intercontinental Pulp Mill is a single line pulp mill with annual production capacity of approximately 320,000 tonnes of NBSK pulp. Intercontinental's pulp is used to make substantially the same product as that of Northwood and is delivered to the same markets.

The Prince George Pulp and Paper Mill is an integrated two line pulp and paper mill with an annual market pulp production capacity of approximately 145,000 tonnes. The Prince George Pulp and Paper Mill supplies pulp markets in North America, Europe, Asia, and its internal paper making facilities.

On January 30, 2015, the Company purchased from Canfor, the Taylor pulp mill which has an annual capacity of 220,000 tonnes of BCTMP. Further discussion of the purchase is provided in "Transactions with Related Parties", later in this document.

Paper

CPPI's paper machine, located at the Prince George Pulp and Paper Mill, has an annual production capacity of approximately 140,000 tonnes of kraft paper. The Prince George Pulp and Paper Mill produces high performance papers, high porous bleached and unbleached kraft and specialty papers. The paper mill supplies primarily North American and European markets.

Business Strategy

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

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

OVERVIEW OF 2015

The Company had another strong year in 2015, as highlighted by its return on invested capital of 23%, which was up approximately 3% from the solid financial performance reported for 2014. This was achieved through higher NBSK pulp and kraft paper sales realizations, which were boosted by a weaker Canadian dollar, improved operating rates and shipment volumes, as well as greater contributions from the Company's recent energy investments.

The significant weakening of the Canadian dollar through 2015 more than offset the impact of increased hardwood pulp supply which added downward pressure to softwood pulp prices during the year. NBSK pulp list prices to North America started the year above US$1,000 per tonne and trended modestly lower through 2015 before finishing the year at US$940 per tonne. Overall average discounts to the list price in 2015 were up slightly compared to the prior year. Pulp list prices to China and Europe saw more pronounced declines, down 12% and 8% in 2015, respectively. Global pulp demand was relatively stable in 2015 while global inventory levels were on the high end of the balanced range through most of the year. Lower NBSK pulp prices were more than offset by a 14% weakening of the Canadian dollar, enabling the Company to deliver higher year-over-year unit sales realizations.

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

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

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

As mentioned above, CPPI purchased the Taylor pulp mill from Canfor at the beginning of 2015, expanding into the BCTMP market as well as securing additional long-term fibre supply for the Company. In contrast to NBSK pulp markets, BCTMP markets remained under significant pressure during 2015 with prices declining steadily through most of the year before stabilizing somewhat in the fourth quarter. The lower prices were partly mitigated by the 14% weaker Canadian dollar, but not enough to prevent the Taylor pulp mill from incurring operating losses in 2015.

During 2015, the Company paid a special dividend of $1.125 per common share and continued its quarterly dividend of $0.0625 per common share returning a total of $96.5 million to shareholders in the year. Share purchases under the Company's Normal Course Issuer Bid were also expanded during the year with just under 1.9 million common shares or approximately 2.7% of the Company's share capital repurchased in 2015. The Company maintained its strong balance sheet with no amounts drawn on its operating loan facility and low net debt to capitalization levels through 2015, finishing the year with net debt of $32.5 million and a net debt to total capitalization ratio of 6.3%.

A review of the more significant developments and results by operating segment in 2015 follows.

Markets and Pricing

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

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

The benchmark North American NBSK pulp list price averaged US$972 per tonne[1] in 2015, a decrease of US$53 per tonne, or 5%, from the prior year. List prices to Europe and China were also under pressure in 2015, down US$78 and US$89 per tonne, respectively. As outlined above, more than offsetting the lower pricing was a 14% weaker Canadian dollar resulting in overall improved sales realizations in Canadian dollar terms.

The following charts show the NBSK pulp list price movements in 2015 before taking account of customer discounts and rebates (Chart 1) and the global pulp inventory levels (Chart 2).

[1] Resource Information Systems, Inc.

Chart 1

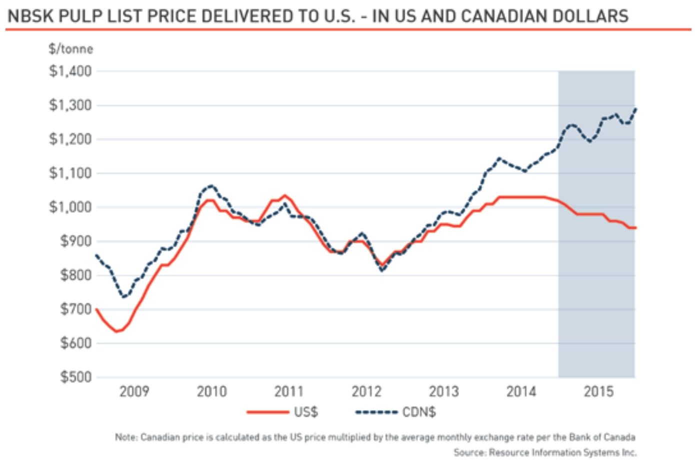
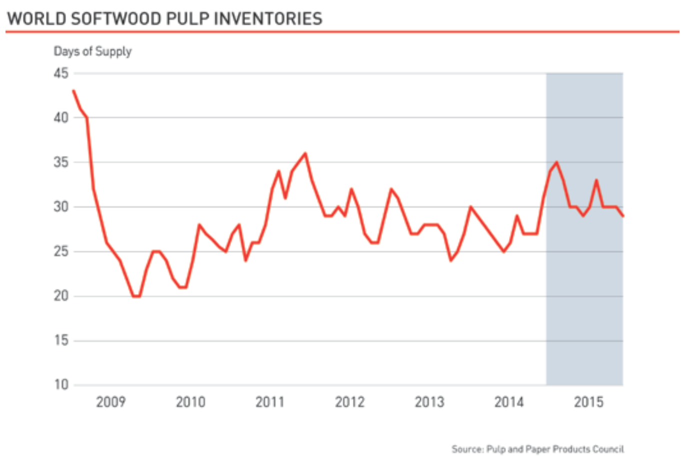


Chart 2



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

(ii) Paper - Kraft paper markets soften in 2015 but receive boost from weaker Canadian dollar

Kraft bleached paper markets came under pressure through 2015. Offshore markets saw price declines through the year while decreases in North American markets were seen in the latter half of 2015. The Paper Shipping Sack Manufacturers' Association ("PSSMA") reported that total sack paper shipments to the US for 2015 were down 7% compared to 2014. On a more positive note, Canadian dollar kraft paper sales realizations reflected the positive impact of the lower Canadian dollar during the year.

Capital and Operations Review

Improved equipment reliability and focus on operational excellence driving increased NBSK operating rates in 2015; Energy business delivering targeted earnings

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

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

Integration with Canfor

The Company continues to build on the successful integration of the CPPI and Canfor leadership teams and key business areas that commenced in 2012. Both companies continued to recognize new and sustainable benefits from further integration and alignment, specifically in the areas of residual fibre management, transportation and logistics. The integration of the Taylor pulp mill with CPPI has been seamless and a number of opportunities to further improve Taylor's operating performance have been identified.

OVERVIEW OF CONSOLIDATED RESULTS – 2015 COMPARED TO 2014

Selected Financial Information and Statistics

(millions of Canadian dollars, except for per share amounts)	2015	2014
Sales	$ 1,174.7	$ 980.5
Operating income before amortization[2]	$ 208.4	$ 188.1
Operating income	$ 143.2	$ 125.4
Loss on derivative financial instruments[3]	$ (8.8)	$ (1.9)
Net income	$ 106.6	$ 89.5
Net income per share, basic and diluted	$ 1.52	$ 1.26
ROIC – Consolidated[4]	23.0%	19.6%
Average exchange rate (US$ per C$1.00)[5]	$ 0.782	$ 0.905

[2] Amortization includes certain capitalized major maintenance costs.
[3] Includes gains (losses) from foreign exchange, energy, pulp future and interest rate swap derivatives (see "Unallocated and Other Items" section for more details).
[4] Consolidated Return on Invested Capital ("ROIC") is equal to operating income/loss, plus realized gains/losses on derivatives and other income/expense, divided by the average invested capital during the year. Invested capital is equal to capital assets, plus long-term investments and net non-cash working capital.
[5] Source – Bank of Canada (average noon rate for the period).

(millions of Canadian dollars)	2015	2014
Operating income (loss) by segment:		
Pulp	$ 127.0	$ 115.0
Paper	$ 27.6	$ 22.0
Unallocated	$ (11.4)	$ (11.6)
Total operating income	$ 143.2	$ 125.4
Add: Amortization	$ 65.2	$ 62.7
Total operating income before amortization[6]	$ 208.4	$ 188.1
Add (deduct):		
Working capital movements	$ (32.9)	$ (13.9)
Defined benefit pension plan contributions	$ (3.9)	$ (6.1)
Income taxes paid, net	$ (36.0)	$ (24.4)
Other operating cash flows, net	$ 9.8	$ 9.7
Cash from operating activities	$ 145.4	$ 153.4
Add (deduct):		
Dividends paid	$ (96.5)	$ (16.8)
Finance expenses paid	$ (2.7)	$ (2.7)
Capital additions, net	$ (68.3)	$ (57.7)
Acquisition of Taylor Pulp Mill	$ (12.6)	$ -
Share purchases	$ (25.3)	$ (2.0)
Other, net	$ 0.7	$ 0.3
Change in cash / operating loans	$ (59.3)	$ 74.5

[6] Amortization includes certain capitalized major maintenance costs.

Analysis of Specific Items Affecting Comparability of Net Income

After-tax impact (millions of Canadian dollars, except for per share amounts)		2015		2014
Net income, as reported	**$**	**106.6**	$	89.5
Loss on derivative financial instruments	**$**	**6.5**	$	1.4
Mark-to-market gain on Taylor Pulp contingent consideration[7]	**$**	**(1.3)**	$	-
Net impact of above items	**$**	**5.2**	$	1.4
Adjusted net income	**$**	**111.8**	$	90.9
Net income per share (EPS), as reported	**$**	**1.52**	$	1.26
Net impact of above items per share	**$**	**0.07**	$	0.02
Adjusted net income per share	**$**	**1.59**	$	1.28

[7] 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 "Acquisition of Taylor Pulp Mill" section).

The Company recorded net income of $106.6 million, or $1.52 per share, for the year ended December 31, 2015, up $17.1 million, or $0.26 per share, from $89.5 million, or $1.26 per share, reported for the year ended December 31, 2014.

Operating income for 2015 was $143.2 million, up $17.8 million from operating income of $125.4 million for 2014. Higher operating earnings were driven principally by stronger NBSK pulp and kraft paper sales realizations, increased pulp shipment volumes and, to a lesser extent, higher energy revenues, all of which more than offset a market-related increase in fibre costs and challenging BCTMP markets in 2015.

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

OPERATING RESULTS BY BUSINESS SEGMENT – 2015 COMPARED TO 2014

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

CPPI's operations include the Pulp and Paper segments.

Pulp

Selected Financial Information and Statistics – Pulp

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

(millions of Canadian dollars, unless otherwise noted)	2015	2014
Sales	**$ 1,006.1**	$ 816.4
Operating income before amortization[8]	**$ 188.5**	$ 174.2
Operating income	**$ 127.0**	$ 115.0
Capital expenditures	**$ 62.5**	$ 56.2
Average pulp price delivered to US - US$[9]	**$ 972**	$ 1,025
Average pulp price in Cdn$	**$ 1,243**	$ 1,133
Production – pulp (000 mt)[10]	**1,215.4**	985.6
Shipments – pulp (000 mt)[10]	**1,227.6**	968.4
Marketed on behalf of Canfor (000 mt)	**15.2**	207.0

[8] Amortization includes certain capitalized major maintenance costs.
[9] Per tonne, NBSK pulp list price delivered to US (Resource Information Systems, Inc).
[10] Pulp production and shipment volumes in 2015 include BCTMP volumes subsequent to CPPI's acquisition of the Taylor BCTMP mill on January 30, 2015 (See further discussion in the "Acquisition of Taylor Pulp Mill" section). Following the acquisition, CPPI no longer markets any product on behalf of Canfor.

Overview

The Pulp segment reported operating income of $127.0 million for 2015, up $12.0 million from $115.0 million for 2014. The improvement in operating income compared to 2014 was principally the result of higher NBSK unit sales realizations, increased NBSK pulp shipments and operating rates as well as higher energy revenues. Partly offsetting these factors were market-driven increases to NBSK pulp fibre costs and operating losses at the Taylor pulp mill which was acquired on January 30, 2015.

Markets

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

At the end of December 2015, World 20[11] producers of bleached softwood pulp inventories were at 29 days' supply, remaining within the balanced range, due in part to strong shipments towards the end of the year. By comparison, December 2014 inventories were at 31 days' supply. Market conditions are generally considered balanced when inventories are in the 27-30 days of supply range.

Sales

The Company's pulp shipments in 2015 were 1,227,600 tonnes, up 259,200 tonnes, or 27%, from 2014 largely reflecting the addition of the Taylor pulp mill on January 30, 2015. Excluding the Taylor pulp mill, NSBK shipments were modestly higher than 2014, for the most part reflecting stronger production volumes in the second half of 2015, and included proportionately higher shipments to North America and China than 2014.

[11] 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").

As mentioned, North American NBSK pulp list prices averaged US$972 per tonne in 2015, down US$53, or 5%, from US$1,025 per tonne while average NBSK pulp list prices to Europe and China saw more pronounced declines in 2015, down US$78 per tonne and US$89 per tonne respectively. Despite lower list prices, NBSK pulp unit sale realizations were modestly higher in 2015 largely reflecting the benefit of the 14% weaker Canadian dollar in 2015. Customer discounts and rebates on NBSK sales in 2015 were up slightly compared to the prior year.

BCTMP products historically sell at a discount to NBSK pulp prices; as such, the inclusion the Taylor pulp mill's BCTMP products in the Company's overall product offering lower the average overall pulp unit sales realizations through 2015. BCTMP markets were under pressure for much of 2015 and as a result, US-dollar BCTMP prices trended downward through the year.

Revenues in the pulp segment were bolstered by higher energy revenue in 2015 largely reflecting the incremental power production from the Intercontinental pulp mill turbine which started selling power in April 2015.

Operations

Pulp production, at 1,215,400 tonnes in 2015, was 229,800 tonnes, or 23%, higher than 2014 principally reflecting the acquisition of the Taylor Pulp mill on January 30, 2015. Excluding BCTMP production from the Taylor pulp mill subsequent to the acquisition date, NBSK production was modestly higher reflecting additional operating days and higher operating rates, particularly in the second half of 2015. 2015 results included maintenance outages at all of the Company's pulp mills with reductions in overall production volumes relatively consistent with the prior year.

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

Paper

Selected Financial Information and Statistics – Paper

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

(millions of Canadian dollars, unless otherwise noted)		**2015**		2014
Sales	**$**	**166.7**	$	162.8
Operating income before amortization[12]	**$**	**31.2**	$	25.4
Operating income	**$**	**27.6**	$	22.0
Capital expenditures	**$**	**5.8**	$	1.1
Production – paper (000 mt)		**136.8**		144.0
Shipments – paper (000 mt)		**133.4**		142.5

[12] Amortization includes certain capitalized major maintenance costs.

Overview

Operating income for the paper segment was $27.6 million for 2015 representing a $5.6 million increase from the prior year largely reflecting significantly higher paper unit sales realizations, largely the result of the 14% weaker Canadian dollar, partly offset by higher unit manufacturing costs and lower paper shipment volumes in 2015.

Markets

As previously mentioned, Kraft bleached paper markets came under pressure in 2015. Offshore markets saw price declines through the year while the North American market experienced weakness in the latter half of 2015. More than offsetting lower kraft bleached paper prices was the benefits of the weaker Canadian dollar in 2015. The Paper Shipping Sack Manufacturers' Association ("PSSMA") reported total sack paper shipments to the US, down 7% compared to 2014.

The Company's prime bleached paper shipments in 2015 represented 85% of prime sales volumes, a 3% improvement from 2014.

Sales

The Company's paper shipments in 2015 were 133,400 tonnes, a decrease of 9,100 tonnes, or 6%, from 2014 primarily the result of lower production levels during 2015. Paper unit sales realizations were significantly higher in 2015 reflecting the favourable impact of the 14% weaker Canadian dollar as well as proportionately higher prime bleached shipments, which more than offset lower US-dollar prices.

Operations

Paper production in 2015 was 136,800 tonnes, down 7,200 tonnes, or 5%, from 2014 primarily reflecting modestly lower operating rates and additional scheduled maintenance days in 2015. In the prior year, the Company's paper machine set annual production and operating rate records. Paper unit manufacturing costs were moderately higher compared to 2014, reflecting higher slush pulp costs (linked to higher Canadian dollar market pulp prices) and increased operating supply costs coupled with lower production levels in 2015.

Unallocated and Other Items

Selected Financial Information

(millions of Canadian dollars)		2015		2014
Corporate costs	**$**	**(11.4)**	$	(11.6)
Finance expense, net	**$**	**(6.0)**	$	(5.5)
Loss on derivative financial instruments	**$**	**(8.8)**	$	(1.9)
Other income (expense), net	**$**	**14.5**	$	2.0

Corporate Costs

Corporate costs, which comprise corporate, head office and general and administrative expenses, were $11.4 million in 2015 and were down slightly from the prior year.

Finance Income and Expense

Net finance expense for 2015 was $6.0 million, up $0.5 million from 2014. The increase principally reflected higher finance expense associated with the Company's letters of credit as well as slightly higher employee future benefit net interest costs. These factors were partly offset by lower interest expense on the Company's operating loan and term debt balances compared to 2014.

Loss on Derivative Financial Instruments

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

In 2015, the Company recorded a net loss of $8.8 million related to its derivative financial instruments, principally reflecting realized losses on the Company's foreign exchange and crude oil collars as a result of the significant declines in the Canadian dollar and oil prices through 2015.

Additional information on the derivative financial instruments in place at year end can be found in the "Liquidity and Financial Requirements" section, later in this document.

Other Income (Expense), Net

Other income, net for 2015 of $14.5 million included favourable foreign exchange movements on US dollar denominated cash, receivables and payables resulting from the significant weakening of the Canadian dollar through the year. Also included in other income, net was 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 "Acquisition of Taylor Pulp Mill" section).

Income Tax Expense

The Company recorded an income tax expense of $36.3 million in 2015 with an overall effective tax rate of 25% (2014: 25%).

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

(millions of Canadian dollars)		2015		2014
Net income before income taxes	$	142.9	$	120.0
Income tax expense at statutory rate 2015 – 26.0% (2014 – 26.0%)	$	(37.2)	$	(31.2)
Add (deduct):				
Entities with different income tax rates and other tax adjustments		1.0		0.8
Permanent difference from capital gains and other non-deductible items		(0.1)		(0.1)
Income tax expense	$	(36.3)	$	(30.5)

Other Comprehensive Income (Loss)

CPPI measures its accrued benefit obligations and the fair value of plan assets for accounting purposes at the end of each quarter. Any actuarial gains or losses which arise are recognized immediately by means of a credit or charge through other comprehensive income. For 2015, an after-tax gain of $5.6 million was recorded in other comprehensive income, including gains on the defined benefit post-employment pension plans and the other non-pension post-employment benefits. The gains in 2015 largely reflected an increase in the discount rate used to value the net defined benefit obligation and a return on pension plan assets greater than the discount rate coupled with a reduction in the medical claims cost assumptions in the non-pension post-employment plans. Offsetting these factors were unfavourable actuarial experience adjustments in both the non-pension and pension plans. In 2014, the after-tax loss of $19.1 million recorded to other comprehensive income largely reflected a lower discount rate used to value the net defined benefit obligation coupled with actuarial adjustments made as part of the tri-annual funding valuation of the Company's largest employee future benefit plan offset in part by the return on plan assets.

SUMMARY OF FINANCIAL POSITION

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

(millions of Canadian dollars, except for ratios)		2015		2014
Cash and cash equivalents	$	17.5	$	76.8
Operating working capital		146.4		102.4
Net working capital		163.9		179.2
Property, plant and equipment		532.3		524.1
Other long-term assets		0.9		0.9
Net assets	$	697.1	$	704.2
Long-term debt	$	50.0	$	50.0
Retirement benefit obligations		93.0		94.9
Long-term provisions		6.2		4.2
Deferred income taxes, net		68.2		65.5
Total equity		479.7		489.6
	$	697.1	$	704.2
Ratio of current assets to current liabilities		2.1 : 1		2.5 : 1
Net debt to total capitalization		6.3%		(5.8)%

The ratio of current assets to current liabilities at the end of 2015 was 2.1:1, compared to 2.5:1 at the end of 2014, partly the result of lower cash and cash equivalent with the payment of a special dividend during 2015. See further discussion in "Changes in Financial Position" section.

The Company's net debt to capitalization was 6.3% at December 31, 2015 (December 31, 2014: (5.8)%) reflecting strong financial performance during 2015 along with the special dividend paid out during the year.

CHANGES IN FINANCIAL POSITION

At the end of 2015, CPPI had $17.5 million of cash and cash equivalents.

(millions of Canadian dollars)	2015	2014
Cash generated from (used in)		
Operating activities	**$ 145.4**	$ 153.4
Financing activities	**(124.5)**	(32.7)
Investing activities	**(80.2)**	(57.4)
Increase (decrease) in cash and cash equivalents	**$ (59.3)**	$ 63.3

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

Operating Activities

For the 2015 year, CPPI generated cash from operations of $145.4 million, down $8.0 million from cash generated of $153.4 million in the previous year. Higher cash earnings in 2015 were more than offset by increased tax installment payments and an increase in non-cash working capital at December 31, 2015. The increase in non-cash working capital in 2015 in large part reflected increased pulp shipments towards the end of the year and the impact of the weaker Canadian dollar on translation of US-dollar denominated accounts receivable balances, as well as higher wood chip inventory levels offset in part by higher accounts payable balances and lower finished inventory levels.

Financing Activities

In 2015, cash used in financing activities of $124.5 million was $91.8 million higher than the $32.7 million used in the prior year. During 2015, CPPI paid a special dividend of $79.0 million, or $1.125 per common share, as well as quarterly dividends of $17.5 million, or $0.0625 per common share in each quarter. The Company also increased share repurchase activity under its Normal Course Issuer Bid in 2015, spending a total of $25.3 million on common share repurchases during the year (see further discussion of the shares purchased under a Normal Course Issuer Bid in the following "Liquidity and Financial Requirements" section). Finance expenses paid during 2015 was consistent with the prior year.

Investing Activities

Net cash used for investing activities in 2015 was $80.2 million, compared to $57.4 million used in 2014. Capital expenditures of $68.3 million in 2015 included final payments related to the Intercontinental pulp mill turbine upgrade as well as increased capital maintenance spending and capital expenditures on certain projects in the paper segment. On January 30, 2015, CPPI completed the acquisition of the Taylor pulp mill from Canfor for cash consideration of $12.6 million (see further discussion in the "Acquisition of Taylor Pulp Mill" section).

LIQUIDITY AND FINANCIAL REQUIREMENTS

Operating Loans

At December 31, 2015, the Company had $130.0 million of unsecured operating loan facilities which were unused, except for $13.0 million reserved for several standby letters of credit, leaving $117.0 million of available undrawn operating loans.

Debt Covenants

CPPI has certain financial covenants on its debt obligations that stipulate maximum debt to total capitalization ratio. The debt to total capitalization is calculated by dividing total debt by shareholders' equity plus total debt. In 2015, the minimum net worth financial covenant, which was based on shareholders' equity, was removed.

In circumstances when debt to total capitalization exceeds a threshold, CPPI is subject to an interest coverage ratio that requires a minimum amount of earnings before interest, taxes, depreciation and amortization relative to net interest expense. CPPI is not currently subject to this test.

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

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

Normal Course Issuer Bid

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. In 2015, CPPI purchased 1,877,951 common shares for $25.6 million (an average price of $13.63 per common share). Cash paid for purchases in 2015 was $25.3 million, with the balance paid in January 2016. As a result of the share purchases, Canfor's interest in CPPI increased from 50.5% at December 31, 2014 to 51.9% at December 31, 2015.

2016 Projected Capital Spending and Debt Repayments

Based on its current outlook for 2016, assuming no deterioration in market conditions during the year, the Company anticipates that it will invest approximately $75.0 million in capital projects (2015 - $68.3 million), which will consist primarily of various improvement projects as well as maintenance of business expenditures, including major maintenance spending. There are no scheduled debt payments in 2016. CPPI has sufficient liquidity in its cash reserves and operating loans to finance its planned capital expenditures as required during 2016.

Derivative Financial Instruments

As at December 31, 2015, the Company had no derivative financial instruments outstanding.

a. CPPI uses US dollar derivative financial instruments to partly hedge its exposure to currency risk. During the year, the Company recognized losses of $8.3 million on US dollar collars as a result of the significant weakening of the Canadian dollar over the course of 2015.

b. CPPI partly uses Western Texas Intermediate oil ("WTI") contracts as proxy to hedge its diesel purchases. During the year, the Company recognized losses of $0.4 million on its oil collars reflecting the decline in oil prices in 2015.

c. From time to time, CPPI enters into futures contracts on commodity exchanges for pulp. The Company did not enter into any pulp futures contracts during 2015.

d. CPPI utilizes interest rate swaps to reduce its exposure to financial obligations bearing variable interest rates. During 2015, CPPI recognized a loss of $0.1 million on its interest rate swaps.

Commitments

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

(millions of Canadian dollars)	2016	2017	2018	2019	2020	Thereafter	Total
Long-term debt obligations	$ -	$ -	$ 50.0	$ -	$ -	$ -	$ 50.0
Operating leases	0.4	0.2	0.2	-	-	-	0.8
	$ 0.4	$ 0.2	$ 50.2	$ -	$ -	$ -	$ 50.8

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

- The Company has energy agreements with a BC energy company and electricity transmission provider (the "Energy Agreements") for three of the Company's mills, with commencement dates ranging from 2006 through 2015. These agreements are for the commitment of electrical load displacement and the sale of incremental power from the Company's pulp and paper mills. These Energy Agreements include incentive grants from the BC energy company for capital investments to increase electrical generation capacity, and also call for performance guarantees to ensure minimum required amounts of electricity are generated, with penalty clauses if they are not met. As part of these commitments, the Company has entered into standby letters of credit for these guarantees. The standby letters of credit have variable expiry dates, depending on the capital invested and the length of the Energy Agreement involved. As at December 31, 2015 the Company had posted $11.6 million of standby letters of credit under these agreements, and had no repayment obligations under the terms of any of these agreements.
- Contractual commitments totaling $1.8 million, principally related to the construction of capital assets.
- The Company's asset retirement obligations represent estimated undiscounted future payments of $9.3 million to remediate the landfills at the end of their useful lives. Payments relating to landfill closure costs are expected to occur at periods ranging from 7 to 36 years which have been discounted at risk free rates ranging from 1.0% to 2.2%. The estimated discounted value is $5.5 million and the amount is included in other long-term provisions.
- Obligations to pay pension and other post-employment benefits, for which a net liability for accounting purposes at December 31, 2015 was $93.0 million. As at December 31, 2015, CPPI estimated that it would make contribution payments of $4.2 million to its defined benefit plans in 2016 based on the last actuarial valuation for funding purposes.
- As part of the acquisition of the Taylor pulp mill, CPPI may also pay contingent consideration to Canfor, based on the Taylor pulp mill's financial performance over a three-year period.
- Purchase obligations and contractual obligations in the normal course of business. For example, purchase obligations of a more substantial dollar amount generally relate to the pulp business and are subject to "force majeure" clauses. In these instances, actual volumes purchased may vary significantly from contracted amounts depending on the Company's requirements in any given year.

TRANSACTIONS WITH RELATED PARTIES

The Company undertakes transactions with various related entities. These transactions are in the normal course of business and are generally on similar terms as those accorded to unrelated third parties, except where noted otherwise. The current pricing under the Company's Fibre Supply Agreement with Canfor expires September 1, 2016 and may be amended as necessary to ensure that it is reflective of market conditions. In 2015, the Company depended on Canfor to provide approximately 64% (2014 - 59%) of its fibre supply.

The Company purchased wood chips, logs and hog fuel from Canfor sawmills in the amount of $182.2 million in 2015.

Canfor provides certain business and administrative services to the Company under a services agreement. The total value of the services provided by Canfor in 2015 was $11.5 million.

The Company provides certain business and administrative services to Canfor under an incidental services agreement. Total value of the services provided to Canfor in 2015 was $3.6 million.

At December 31, the following amounts were included in the balance sheet of the Company:

(millions of Canadian dollars)	**As at December 31, 2015**	As at December 31, 2014
Balance Sheet		
Included in accounts payable and accrued liabilities:		
Canfor	**$ 15.6**	$ 18.0
Included in trade and other accounts receivable:		
Products marketed for Canfor	**$ -**	$ 1.7

Additional details on related party transactions are contained in note 16 to CPPI's 2015 consolidated financial statements.

Acquisition 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 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 financial performance over a three-year period. The fair value of this contingent consideration of $1.8 million at the acquisition date was adjusted to nil during December 31, 2015 (with the associated gain recorded to Other Income) to reflect lower forecast BCTMP prices over the contingent consideration period. 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.

If the acquisition had occurred on January 1, 2015, CPPI's consolidated sales for the year ended December 31, 2015 would have increased by approximately $8.9 million and consolidated net income for the year ended December 31, 2015 would have increased by approximately $0.2 million. The Taylor pulp mill's results are recorded in the pulp segment.

SELECTED QUARTERLY FINANCIAL INFORMATION

	Q4 2015	**Q3 2015**	**Q2 2015**	**Q1 2015**	**Q4 2014**	**Q3 2014**	**Q2 2014**	**Q1 2014**
Sales and income (millions of Canadian dollars)								
Sales	**$ 330.8**	**$ 294.1**	**$ 276.0**	**$ 273.8**	$ 264.0	$ 237.6	$ 252.5	$ 226.4
Operating income before amortization[13]	**$ 56.2**	**$ 58.7**	**$ 36.4**	**$ 57.1**	$ 43.2	$ 47.7	$ 44.8	$ 52.4
Operating income	**$ 38.6**	**$ 42.3**	**$ 20.9**	**$ 41.4**	$ 28.0	$ 31.4	$ 29.6	$ 36.4
Net income	**$ 29.7**	**$ 31.2**	**$ 17.7**	**$ 28.0**	$ 20.7	$ 24.3	$ 18.8	$ 25.7
Per common share (Canadian dollars)								
Net income – basic and diluted	**$ 0.43**	**$ 0.45**	**$ 0.25**	**$ 0.40**	$ 0.29	$ 0.34	$ 0.27	$ 0.36
Book value[14]	**$ 6.96**	**$ 6.65**	**$ 7.40**	**$ 7.17**	$ 6.92	$ 6.86	$ 6.56	$ 6.39
Dividends declared	**$ 0.0625**	**$ 0.0625**	**$ 1.1875**	**$ 0.0625**	$ 0.0625	$ 0.0625	$ 0.0625	$ 0.0625
Statistics								
Pulp shipments (000 mt)	**356.2**	**307.4**	**291.9**	**272.1**	258.6	240.5	246.9	222.4
Paper shipments (000 mt)	**35.4**	**32.1**	**33.8**	**32.1**	35.8	35.7	39.7	31.3
Average exchange rate – US$/Cdn$	**$ 0.749**	**$ 0.764**	**$ 0.813**	**$ 0.806**	$ 0.881	$ 0.918	$ 0.917	$ 0.906
Average NBSK pulp list price delivered to US (US$)	**$ 945**	**$ 967**	**$ 980**	**$ 995**	$ 1,025	$ 1,030	$ 1,030	$ 1,017

[13] Amortization includes certain capitalized major maintenance costs.
[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.

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 energy derivatives, pulp futures and US dollar forward contracts and collars.

(millions of Canadian dollars)	Q4 2015	Q3 2015	Q2 2015	Q1 2015	Q4 2014	Q3 2014	Q2 2014	Q1 2014
Operating income (loss) by segment:								
Pulp	**$ 34.4**	**$ 38.2**	**$ 18.1**	**$ 36.3**	$ 23.7	$ 27.5	$ 28.8	$ 35.0
Paper	**$ 6.9**	**$ 7.1**	**$ 5.7**	**$ 7.9**	$ 7.2	$ 6.5	$ 3.8	$ 4.5
Unallocated	**$ (2.7)**	**$ (3.0)**	**$ (2.9)**	**$ (2.8)**	$ (2.9)	$ (2.6)	$ (3.0)	$ (3.1)
Total operating income	**$ 38.6**	**$ 42.3**	**$ 20.9**	**$ 41.4**	$ 28.0	$ 31.4	$ 29.6	$ 36.4
Add: Amortization	**$ 17.6**	**$ 16.4**	**$ 15.5**	**$ 15.7**	$ 15.2	$ 16.3	$ 15.2	$ 16.0
Total operating income before amortization[15]	**$ 56.2**	**$ 58.7**	**$ 36.4**	**$ 57.1**	$ 43.2	$ 47.7	$ 44.8	$ 52.4
Add (deduct):								
Working capital movements	**$ (11.8)**	**$ (10.5)**	**$ (1.1)**	**$ (9.5)**	$ 8.5	$ (13.2)	$ 10.7	$ (19.9)
Defined benefit pension plan contributions	**$ (1.7)**	**$ (0.5)**	**$ (1.3)**	**$ (0.4)**	$ (1.1)	$ (1.2)	$ (1.3)	$ (2.5)
Income taxes paid, net	**$ (2.0)**	**$ (18.3)**	**$ (3.2)**	**$ (12.5)**	$ (1.0)	$ (12.5)	$ (1.3)	$ (9.6)
Other operating cash flows, net	**$ 2.4**	**$ 2.8**	**$ (0.3)**	**$ 4.9**	$ 3.6	$ 3.9	$ (1.3)	$ 3.5
Cash from operating activities	**$ 43.1**	**$ 32.2**	**$ 30.5**	**$ 39.6**	$ 53.2	$ 24.7	$ 51.6	$ 23.9
Add (deduct):								
Dividends paid	**$ (4.4)**	**$ (83.3)**	**$ (4.4)**	**$ (4.4)**	$ (4.4)	$ (4.4)	$ (4.5)	$ (3.5)
Finance expenses paid	**$ (0.7)**	**$ (0.9)**	**$ (0.6)**	**$ (0.5)**	$ (0.7)	$ (0.6)	$ (0.6)	$ (0.8)
Capital additions, net	**$ (27.6)**	**$ (14.5)**	**$ (12.8)**	**$ (13.4)**	$ (11.3)	$ (16.2)	$ (20.2)	$ (10.0)
Acquisition of Taylor Pulp Mill	**$ -**	**$ -**	**$ -**	**$ (12.6)**	$ -	$ -	$ -	$ -
Share purchases	**$ (9.6)**	**$ (6.7)**	**$ (7.3)**	**$ (1.7)**	$ -	$ (2.0)	$ -	$ -
Other, net	**$ 0.1**	**$ 0.1**	**$ 0.3**	**$ 0.2**	$ 0.2	$ 0.1	$ -	$ -
Change in cash / operating loans	**$ 0.9**	**$ (73.1)**	**$ 5.7**	**$ 7.2**	$ 37.0	$ 1.6	$ 26.3	$ 9.6

[15] Amortization includes certain capitalized major maintenance costs.

THREE-YEAR COMPARATIVE REVIEW

(millions of Canadian dollars, except per share amounts)	2015	2014	2013
Sales	**$ 1,174.7**	$ 980.5	$ 886.8
Net income	**$ 106.6**	$ 89.5	$ 41.8
Total assets	**$ 841.3**	$ 827.4	$ 768.6
Term debt	**$ 50.0**	$ 50.0	$ 50.0
Net income per share, basic and diluted	**$ 1.52**	$ 1.26	$ 0.59
Dividends declared per share	**$ 1.375**	$ 0.250	$ 0.200

FOURTH QUARTER RESULTS

Overview

The Company recorded operating income of $38.6 million and net income of $29.7 million for the fourth quarter of 2015, compared to operating income of $42.3 million and net income of $31.2 million for the third quarter of 2015 and operating income of $28.0 million and net income of $20.7 million for the fourth quarter of 2014. Net income per share was $0.43 for the fourth quarter of 2015, compared to $0.45 per share in the third quarter of 2015 and $0.29 per share in the fourth quarter of 2014.

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

Pulp

Selected Financial Information and Statistics – Pulp

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

(millions of Canadian dollars, unless otherwise noted)		Q4 2015		Q3 2015		Q4 2014
Sales	$	286.9	$	253.5	$	221.4
Operating income before amortization[16]	$	50.9	$	53.7	$	38.0
Operating income	$	34.4	$	38.2	$	23.7
Average pulp price delivered to US – US$[17]	$	945	$	967	$	1,025
Average price in Cdn$	$	1,262	$	1,266	$	1,164
Production – pulp (000 mt)		322.5		310.5		241.1
Shipments – pulp (000 mt)		356.2		307.4		258.6
Marketed on behalf of Canfor (000 mt)		-		-		55.4

[16] Amortization includes certain capitalized major maintenance costs.
[17] Per tonne, NBSK pulp list price delivered to US (Resource Information Systems, Inc.).

Overview

Operating income for the pulp segment was $34.4 million for the fourth quarter of 2015 down $3.8 million from the third quarter of 2015 and up $10.7 million from the same quarter in 2014. Pulp segment financial results and information in 2015 include the Taylor pulp mill which was acquired on January 30, 2015.

Pulp segment results in the fourth quarter of 2015 reflected increased pulp production and shipment volumes as well as higher energy revenues, which largely offset slightly lower NBSK pulp unit sales realizations and costs associated with the scheduled maintenance outage at the Company's Northwood pulp mill in October. The increased pulp production and energy revenue reflected improved operating rates, and, in the case of energy revenue, seasonally higher energy prices. In response to challenging BCTMP market conditions, operations were temporarily curtailed for eight days at the Company's Taylor pulp mill.

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

Markets

Global softwood pulp markets weakened somewhat through most of the fourth quarter of 2015, before stabilizing towards the end of the year. Global softwood pulp producer inventory levels remained balanced through the quarter and finished at 29 days of supply at the end of December 2015, decreasing 1 day from the end of September 2015[18]. Market conditions are generally considered balanced when inventories are in the 27-30 days of supply range.

Global shipments of bleached softwood kraft pulp were up from both comparative periods driven primarily by increased shipments to North America and China[19].

Sales

The Company's pulp shipments in the fourth quarter of 2015 totalled 356,200 tonnes, up 48,800 tonnes, or 16%, from the third quarter of 2015 and up 97,600 tonnes, or 38%, from the same quarter in 2014. Higher pulp shipments in the current quarter primarily reflected increased volumes to North America and Asia. Compared to the fourth quarter of 2014, the increase in pulp shipments was mostly due to the acquisition of the Taylor pulp mill at the beginning of 2015.

The average North American US-dollar NBSK list price, as published by RISI, was down US$22 per tonne, or 2%, compared to the third quarter of 2015 with more pronounced declines seen the average European and China NBSK prices. The average China US-dollar NBSK pulp list price was down US$38 per tonne, or 6%, compared to the third quarter of 2015. NBSK pulp unit sales realizations were slightly lower in the current quarter reflecting these lower prices partly offset by the 2 cent, or 2%, weaker Canadian dollar. BCTMP markets remained challenging in the fourth quarter of 2015, with prices bottoming out after the downward trend seen in the third quarter of 2015. Average BCTMP prices were lower quarter-over-quarter, but the favourable impact of the weaker Canadian dollar offset most of this decline.

NBSK pulp unit sales realizations were broadly in line with the fourth quarter of 2014 as lower prices to all regions were offset by the favourable impact of a 13 cent, or 15%, weaker Canadian dollar. The average North American NBSK pulp US-dollar list price was down US$80 per tonne, or 8%, with discounts showing a moderate increase over the same period; European and China NBSK pulp prices showed more pronounced decreases of US$118 and US$115 per tonne, respectively. The Company's overall unit sales realizations in 2015 reflected the inclusion of lower-priced BCTMP product produced at the Taylor pulp mill.

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

Operations

Pulp production in the current quarter was 322,500 tonnes, up 12,000 tonnes, or 4%, from the third quarter of 2015 and up 81,400 tonnes, or 34%, from the same quarter in 2014. Production in the current quarter reflected higher operating rates and additional operating days offset by the scheduled maintenance outage at the Northwood pulp mill, which reduced market pulp production of 20,000 tonnes in October and 6,000 tonnes in the previous quarter. In December, the Company temporarily curtailed operations at the Taylor pulp mill for eight days in response to the challenging BCTMP market conditions. BCTMP production made up approximately 17% of the Company's total pulp production in the fourth quarter of 2015. The significant increase in pulp production compared to the fourth quarter of 2014 principally reflected incremental production from the Taylor acquisition. Production in the fourth quarter of 2014 was also impacted by a scheduled maintenance outage at the Northwood pulp mill which reduced market pulp production by 17,000 tonnes.

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

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

Paper

Selected Financial Information and Statistics – Paper

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

(millions of Canadian dollars, unless otherwise noted)	**Q4 2015**	Q3 2015	Q4 2014
Sales	**$ 43.6**	$ 40.5	$ 42.5
Operating income before amortization[20]	**$ 7.9**	$ 8.0	$ 8.0
Operating income	**$ 6.9**	$ 7.1	$ 7.2
Production – paper (000 mt)	**35.8**	34.6	36.0
Shipments – paper (000 mt)	**35.4**	32.1	35.8

[20] Amortization includes certain capitalized major maintenance costs.

Overview

Operating income for the paper segment at $6.9 million for the fourth quarter of 2015 was consistent with both comparative periods, with production and shipment volumes up compared to the prior quarter reflecting additional operating days. Compared to the third quarter of 2015, unit sales realizations were down slightly as lower market prices were partly offset by the weaker Canadian dollar, while unit manufacturing costs were relatively unchanged from the previous quarter. Compared to the same quarter in 2014, unit sales realizations benefited from the weaker Canadian dollar, which more than offset lower US-dollar paper prices, while unit manufacturing costs were moderately higher in the current quarter mostly due to higher operating supply costs.

Markets

Global kraft paper demand softened through the fourth quarter of 2015, driven by weakness in both North American and European markets. The continued strengthening of the US dollar against global currencies has in part resulted in increased competition in non-traditional markets in some countries as they leverage favourable currency movements.

Sales

The Company's paper shipments in the fourth quarter of 2015 were 35,400 tonnes, up 3,300 tonnes, or 10%, from the previous quarter and broadly in line with the same quarter in 2014. Prime bleached shipments, which attract higher prices, were in line with the third quarter of 2015 and 2% higher than for the same quarter of 2014.

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

Operations

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

Unallocated Items

(millions of Canadian dollars)		Q4 2015		Q3 2015		Q4 2014
Corporate costs	**$**	**(2.7)**	$	(3.0)	$	(2.9)
Finance expense, net	**$**	**(1.7)**	$	(1.7)	$	(1.4)
Gain (loss) on derivative financial instruments	**$**	**0.9**	$	(4.9)	$	(0.8)
Other income, net	**$**	**1.9**	$	6.2	$	1.8

Corporate costs were $2.7 million for the fourth quarter of 2015, down from both comparable periods partly reflecting lower travel related costs in the fourth quarter of 2015.

Net finance expense for the fourth quarter of 2015 was $1.7 million, in line with the previous quarter and up slightly from the fourth quarter of 2014. The increase in finance expense compared to the same quarter in 2014 principally reflected one-time costs associated with the Company's letters of credit.

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 fourth quarter of 2015, the Company recorded a net gain of $0.9 million largely reflecting gains on US dollar foreign exchange and crude oil collars as the instruments matured in the quarter. At December 31, 2015, the Company had no derivative financial instruments outstanding.

Other income, net for the fourth quarter of 2015 of $1.9 million reflected favourable exchange movements on US dollar denominated cash, receivables and payables, resulting from the weakening of the Canadian dollar through the quarter.

Other Comprehensive Income (Loss)

In the fourth quarter of 2015, the Company recorded an after-tax gain of $0.5 million in relation to changes in the valuation of the Company's employee future benefit plans. The gain principally reflects a reduction in the medical claims cost assumptions in the non-pension post-employment plans coupled with a return on plan assets in the pension plans that was greater than the discount rate. Offsetting these factors were unfavourable actuarial experience adjustments in both the non-pension and pension plans. After-tax gains of $2.8 million were recorded in the third quarter of 2015 and an after-tax loss of $12.3 million was recorded in the fourth quarter of 2015.

Summary of Financial Position

The following table summarizes CPPI's cash flow for the following periods:

(millions of Canadian dollars)		Q4 2015		Q3 2015		Q4 2014
Increase (decrease) in cash and cash equivalents	**$**	**0.9**	$	(73.1)	$	37.0
Operating activities	**$**	**43.1**	$	32.2	$	53.2
Financing activities	**$**	**(14.7)**	$	(90.9)	$	(5.1)
Investing activities	**$**	**(27.5)**	$	(14.4)	$	(11.1)

Cash generated from operating activities was $43.1 million in fourth quarter of 2015, up $10.9 million from the previous quarter principally reflecting lower tax installment payments, which more than offset slightly lower cash earnings in the current quarter. During the fourth quarter of 2015, non-cash working capital increased by a similar amount to the third quarter of 2015 partly reflecting increased pulp shipments towards the end of the year and the impact of the weaker Canadian dollar on US-dollar denominated accounts receivable balances, as well as higher wood chip inventory levels offset in part by a reduction in finished inventory levels in the current quarter. In the comparative fourth quarter of 2014, operating cash flows included lower cash earnings offset by favourable non-cash working capital movements that were mostly timing related.

Cash used for financing activities was $14.7 million in the fourth quarter of 2015 down $76.2 million from the previous quarter and up $9.6 million from the same quarter in 2014. In the fourth quarter of 2015, CPPI purchased 692,985 common shares under its Normal Course Issuer Bid for $9.7 million, of which $9.6 million was paid in the current quarter. This compares to 557,401 common shares purchased in the third quarter of 2015 for $6.7 million and no shares purchased in the fourth quarter of 2014 (see further discussion of the shares purchased under the Normal Course Issuer Bid in the following "Liquidity and Financial Requirements" section). CPPI paid $4.4 million

($0.0625 per share) in quarterly dividends during the fourth quarter of 2015. In the third quarter of 2015, in addition to the quarterly dividend the Company paid a special dividend of $79.0 million ($1.1250 per share).

Cash used for investing activities of $27.5 million in the current quarter primarily related to capital expenditures associated with the scheduled maintenance outage at the Northwood pulp mill and, to a lesser extent, certain energy related projects and the acquisition of mobile equipment.

SPECIFIC ITEMS AFFECTING COMPARABILITY

Specific Items Affecting Comparability of Net Income

Factors that impact the comparability of the quarters are noted below:

After-tax impact (millions of Canadian dollars, except for per share amounts)	Q4 2015	Q3 2015	Q2 2015	Q1 2015	Q4 2014	Q3 2014	Q2 2014	Q1 2014
Net income, as reported	**$ 29.7**	**$ 31.2**	**$ 17.7**	**$ 28.0**	$ 20.7	$ 24.3	$ 18.8	$ 25.7
(Gain) loss on derivative financial instruments	**$ (0.7)**	**$ 3.6**	**$ (3.4)**	**$ 7.0**	$ 0.6	$ 0.2	$ (0.4)	$ 1.0
Mark-to market gain on Taylor Pulp contingent consideration[21]	**$ -**	**$ -**	**$ (1.3)**	**$ -**	$ -	$ -	$ -	$ -
Net impact of above items	**$ (0.7)**	**$ 3.6**	**$ (4.7)**	**$ 7.0**	$ 0.6	$ 0.2	$ (0.4)	$ 1.0
Adjusted net income	**$ 29.0**	**$ 34.8**	**$ 13.0**	**$ 35.0**	$ 21.3	$ 24.5	$ 18.4	$ 26.7
Net income per share (EPS), as reported	**$ 0.43**	**$ 0.45**	**$ 0.25**	**$ 0.40**	$ 0.29	$ 0.34	$ 0.27	$ 0.36
Net impact of above items per share[22]	**$ (0.01)**	**$ 0.05**	**$ (0.07)**	**$ 0.10**	$ 0.01	$ -	$ (0.01)	$ 0.01
Adjusted net income per share[22]	**$ 0.42**	**$ 0.50**	**$ 0.18**	**$ 0.50**	$ 0.30	$ 0.34	$ 0.26	$ 0.37

[21] 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 "Acquisition of Taylor Pulp Mill" section).

[22] The year-to-date net impact of the adjusting items per share and adjusted net income per share does not equal the sum of the quarterly per share amounts due to rounding.

OUTLOOK

Pulp Markets

For the month of January 2016, NBSK pulp list prices were unchanged in North America at US$940 per tonne, while prices to China decreased US$5 to US$590 per tonne. For the month of March 2016, the Company has announced a list price of US$960 per tonne in North America. In the second quarter of 2016, producer inventories are forecast to decline during the industry's traditional spring maintenance period.

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

Paper Markets

Kraft paper markets are projected to soften heading into the first quarter of 2016 with potential for further downward pressure on prices in North American markets in the second quarter of 2016.

A maintenance outage is currently planned at the Paper machine during the third quarter of 2016 with a projected 4,000 tonnes of reduced production.

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with International Financial Reporting Standards ("IFRS") requires management to make estimates and assumptions that affect the amounts recorded in the financial statements. Management regularly reviews these estimates and assumptions based on currently available information. While it is reasonably possible that circumstances may arise which cause actual results to differ from these estimates, management does not believe it is likely that any such differences will materially affect CPPI's financial position. Unless otherwise indicated the critical accounting estimates discussed affect all of the Company's reportable segments.

Employee Future Benefits

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

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

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

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

In addition to the significant assumptions listed in the table above, the average life expectancy of a 65 year old at December 31, 2015 is between 20.9 years and 24.0 years (2014 - 20.8 years and 24.0 years). As at December 31, 2015, the weighted average duration of the defined benefit plan obligation, which reflects the average age of the plan members, is 12.0 years (2014 - 12.4 years). The weighted average duration of the other benefit plans is 14.3 years (2014 - 13.9 years).

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

(millions of Canadian dollars)	1% Increase	1% Decrease
Pension benefit plans		
Discount rate	$ (15.5)	$ 19.0
Other benefit plans		
Discount rate	$ (10.8)	$ 13.7
Initial medical cost trend rate	$ 10.2	$ (8.5)

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

Asset Retirement Obligations

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

Asset Impairments

CPPI reviews the carrying values of its long-lived assets, including property, plant and equipment on a regular basis as events or changes in circumstances may warrant. An impairment loss is recognized in net income at the amount that the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. No impairments were recorded in 2015 or 2014.

Deferred Taxes

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

Valuation of Finished Product Inventories

Finished product inventories are recorded at the lower of cost and net realizable value. The cost of inventories is based on the weighted average cost principle, and includes raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. CPPI estimates the net realizable value of the finished goods inventories based on actual and forecasted sales orders. Based on these estimates, write-downs of the Company's finished goods inventories from cost to net realizable totaled $0.5 million at December 31, 2015 and related to inventory at the Taylor pulp mill.

FUTURE CHANGES IN ACCOUNTING POLICIES

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

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

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

RISKS AND UNCERTAINTIES

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

Aboriginal Issues

Canfor Pulp sources the majority of its fibre from areas subject to claims of Aboriginal rights or title. Canadian judicial decisions have recognized the continued existence of Aboriginal rights and title to lands continuously and exclusively used or occupied by Aboriginal groups; however, until recently, the courts have not identified any specific lands where Aboriginal title exists. In June 2014, the Supreme Court of Canada, for the first time, recognized Aboriginal title for the Tsilhqot'in Nation over approximately 1,750 square kilometres of land in central BC ("William decision"). It found that provisions of BC's *Forest Act*, dealing with the disposition or harvest of Crown timber, no longer applied to timber located on these lands, but also confirmed provincial law can apply on Aboriginal title lands.

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

The impacts of the Supreme Court of Canada's decision on the timber supply from Crown lands is unknown at this time; and the Company does not know if the decision will lead to changes in BC laws or policies. Canfor Pulp supports the work of tenure holders to engage, cooperate and exchange information and views with First Nations and Government to foster good relationships and minimize risks to the Company's operational plans.

Capital Requirements

The pulp and paper industries are capital intensive, and the Company regularly incurs capital expenditures to expand its operations, maintain its equipment, increase its operating efficiency and comply with environmental laws. The Company's total capital expenditures during 2015 were approximately $68.3 million. The Company anticipates available cash resources and cash generated from operations will be sufficient to fund its operating needs and capital expenditures.

Competitive Markets

The Company's products are sold primarily in North America, Europe, Japan and Asia. The markets for the Company's products are highly competitive on a global basis, with a number of major companies competing in each market with no company holding a dominant position. Competitive factors include quality of product, reliability of supply and customer service. The Company's competitive position is influenced by: the availability, quality, and cost of raw materials; energy and labour costs; free access to markets; currency exchange rates; plant efficiencies; and productivity in relation to its competitors.

Currency Exchange Risk

The Company's operating results are sensitive to fluctuations in the exchange rate of the Canadian dollar to the US dollar, as prices for the Company's products are denominated in US dollars or linked to prices quoted in US dollars. Therefore, an increase in the value of the Canadian dollar relative to the US dollar reduces the amount of revenue in Canadian dollar terms realized by the Company from sales made in US dollars, which in turn, reduces the Company's operating margin and the cash flow available.

Cyclicality of Product Prices

The Company's financial performance is dependent upon the selling prices of its pulp and paper products, which have fluctuated significantly in the past. The markets for these products are highly cyclical and may be characterized by (i) periods of excess product supply due to industry capacity additions, increased production and other factors; and (ii) periods of insufficient demand due to weak general economic conditions. The economic climate of each region where the Company's products are sold has a significant impact upon the demand, and therefore, the prices for pulp and paper. Prices of pulp, in particular, have historically been unpredictable.

Dependence on Canfor

In 2015, approximately 64% of the fibre used by the Company was derived from the Fibre Supply Agreement with Canfor. The Company's financial results could be materially adversely affected if Canfor is unable to provide the current volume of wood chips as a result of mill closures, whether temporary or permanent.

Dependence on Key Customers

In 2015, the Company's top five customers accounted for approximately 33% of its pulp sales. In the event that the Company cannot maintain these customer relationships or the demand from these customers is diminished for any reason in the future, there is a risk that the Company would be forced to find alternative markets in which to sell its pulp, which in turn, could result in lower prices or increased distribution costs thereby adversely affecting its sales margins.

Dividends

CPPI paid quarterly dividends of $0.0625 per share through 2015 and may, subject to market conditions, continue to pay a comparable level of dividends through 2016. The Company also paid a special dividend of $79.0 million ($1.1250 per share) to the shareholders of the Company as a result of strong cash generated by the business in 2014 and 2015. There is no assurance that the dividends will be maintained at this level and the market value of CPPI shares may fluctuate depending on the amount of dividends paid in the future. The board retains the discretion to change the policy at any time and reviews the policy on a quarterly basis.

Employee Future Benefits

The Company, in participation with Canfor, has several defined benefit plans, which provide pension benefits to certain salaried employees. Benefits are based on a combination of years of service and final average salary. Cash payments required to fund the pension plan are determined by actuarial valuation completed at least once every three years, with the most recent actuarial valuation for the largest plan completed as of December 31, 2013.

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

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

For CPPI's pension benefit plans, a one percentage point increase in the discount rate used in calculating the actuarial estimate of future liabilities would reduce the accrued benefit obligation by an estimated $15.5 million and a one percentage point decrease in the discount rate would increase the accrued benefit obligation by an estimated $19.0 million. These changes would only impact the Company's funding requirements in years where a new actuarial funding valuation was performed and regulatory approval for a change in funding contributions was obtained.

Environmental Laws, Regulations and Compliance

The Company is subject to a wide range of general and industry-specific laws and regulations relating to the protection of the environment, including those governing air emissions, wastewater discharges, the storage, management and disposal of hazardous substances and wastes, the cleanup of contaminated sites, landfill operation and closure obligations, and health and safety matters. These laws and regulations require the Company to comply with specific requirements as described in regulations. Regulations may also require the Company to obtain authorizations and comply with the authorization requirements of the appropriate governmental authorities which have considerable discretion over the terms and timing of said authorizations and permits.

The Company has incurred, and expects to continue to incur, capital, operating and other expenditures complying with applicable environmental laws and regulations and as a result of environmental remediation on asset retirement obligations. It is possible that the Company could incur substantial costs, such as civil or criminal fines, sanctions and enforcement actions, cleanup and closure costs, and third-party claims for property damage and personal injury as a result of violations of, or liabilities under, environmental laws and regulations. The amount and timing of environmental expenditures is difficult to predict, and, in some cases, the Company's liability may exceed forecasted amounts. The discovery of additional contamination or the imposition of additional cleanup obligations at the Company's or third-party sites may result in significant additional costs. Any material expenditure incurred could adversely impact the Company's financial condition or preclude the Company from making capital expenditures that would otherwise benefit the Company's business. Enactment of new environmental laws or regulations or changes in existing laws or regulations, or interpretation thereof, could have a significant impact on the Company.

Financial Risk Management and Earnings Sensitivities

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

Financial Risk Management

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

The CPPI Risk Management Committee manages risk in accordance with a Board approved Risk Management Controls Policy. The policy sets out the responsibilities, reporting and counter party credit and communication requirements associated with all of the Company's risk management activity. Responsibility for overall philosophy, direction and approval is that of the Board of Directors.

(a) Credit risk:

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

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

CPPI utilizes a combination of credit insurance and self-insurance to manage the risk associated with trade receivables. As at December 31, 2015, approximately 78% of the outstanding trade receivables are covered under credit insurance. In addition, CPPI requires letters of credit on certain export trade receivables and regularly discounts these letters of credit without recourse. CPPI recognizes the sale of the letters of credit on the settlement date, and accordingly reduces the related trade accounts receivable balance. CPPI's trade receivable balance at December 31, 2015 was $101.8 million. At December 31, 2015, approximately 99% of the trade accounts receivable balance was within CPPI's established credit terms.

(b) Liquidity risk:

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

At December 31, 2015, CPPI had no amounts drawn on its operating loans, and had accounts payable and accrued liabilities of $144.2 million, all of which are due within twelve months of the balance sheet date.

(c) Market risk:

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

(i) *Interest Rate risk:*

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

CPPI uses interest rate swaps to reduce its exposure to financial obligations bearing variable interest rates (See "Derivative Financial Instruments" section later in this document).

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

(ii) *Currency risk:*

CPPI is exposed to foreign exchange risk primarily related to the US dollar, as CPPI products are sold globally with prices primarily denominated in US dollars or linked to prices quoted in US dollars with certain expenditures transacted in US dollars. In addition, the Company holds financial assets and liabilities in US dollars. These primarily include US dollar bank accounts, investments and trade accounts.

A portion of the currency risk associated with US dollar denominated sales is naturally offset by US dollar denominated expenses. The Company enters into US dollar collars to reduce exposure to fluctuations in US exchange rates on US dollar denominated accounts receivable and accounts payable balances (See "Derivative Financial Instruments" section later in this document).

(iii) *Commodity price risk:*

CPPI's financial performance is dependent on the selling price of its products and the purchase price of raw material inputs. Consequently, CPPI is exposed to changes in commodity prices for pulp and paper, as well as changes in fibre, freight, chemical and natural gas prices. The markets for pulp and paper are cyclical and are influenced by a variety of factors. These factors include periods of excess supply due to industry capacity additions, periods of decreased demand due to weak global economic activity, inventory destocking by customers and fluctuations in currency exchange rates. During periods of low prices, CPPI is subject to reduced revenues and margins, which adversely impact profitability. The Company may periodically use derivative instruments to mitigate commodity price risk (See "Derivative Financial Instruments" section later in this document).

(iv) *Energy price risk:*

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

The exposure is hedged up to 100% through the use of floating to fixed swap contracts or option contracts with maturity dates up to a maximum of eighteen months. In the case of diesel, CPPI uses WTI oil contracts to hedge its exposure (See "Derivative Financial Instruments" section later in this document).

Derivative Financial Instruments

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

Earnings Sensitivities

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

(millions of Canadian dollars)	Impact on annual pre-tax earnings
NBSK Pulp – US$10 change per tonne [23]	$ 9
BCTMP – US$10 change per tonne [23]	$ 3
Natural gas cost – $1 change per gigajoule	$ 6
Chip cost – $1 change per tonne	$ 3
Canadian dollar – US$0.01 change per Canadian dollar[24]	$ 7

[23] Excluding impacts of exchange rate, freight, discounting, potential change in fibre costs and other deductions.
[24] Represents impact on operating income and excludes the impact on operating loans denominated in US$. Decrease of US$0.01 per Canadian dollar results in an increase to pre-tax annual earnings and an increase of US$0.01 per Canadian dollar results in a decrease to pre-tax annual earnings.

Governmental Regulations

The Company is subject to a wide range of general and industry-specific environmental, health and safety and other laws and regulations imposed by federal, provincial and local authorities. If the Company is unable to extend or renew a material approval, license or permit required by such laws, or if there is a delay in renewing any material approval, license or permit, the Company's business, financial condition, results of operations and cash flows could be materially adversely affected. In addition, future events such as any changes in these laws and regulations or any change in their interpretation or enforcement, or the discovery of currently unknown conditions, may give rise to unexpected expenditures or liabilities.

Increased Industry Production Capacity

The Company currently faces substantial competition in the pulp industry and may face increased industry competition in the years to come if new manufacturing facilities are built or if existing mills are improved. If increases in pulp production capacity exceed increases in pulp demand, selling prices for pulp could decline and adversely affect the Company's business, financial condition, results of operations and cash flows, and the Company may not be able to compete with competitors who have greater financial resources and who are better able to weather a prolonged decline in prices.

Maintenance Obligations and Facility Disruptions

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

Raw Material Costs

The principal raw material utilized by the Company in its manufacturing operations is wood chips. The Company's evergreen Fibre Supply Agreement with Canfor contains a pricing formula that currently results in the Company paying market price for wood chips and contains provisions to adjust the pricing to reflect market conditions. The current pricing under the agreement expires September 1, 2016, and may be amended as necessary to ensure it is reflective of market conditions. Prices for wood chips are not within the Company's control and are driven by market demand, product availability, environmental restrictions, logging regulations, the imposition of fees or other restrictions on exports of lumber into the US and other matters. In a period of sawmill rationalization or reduced sawmill wood chip supply, increased reliance on higher-cost whole log chips may be required. The Company is not always able to increase the selling prices of its products in response to increases in raw material costs. Residual chip pricing depends on current sawmills running at current levels. In order to meet the raw materials requirements of its mills, the Company may be forced to further supplement with increased purchases of higher-cost whole log chips.

Transportation Services

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

Work Stoppages

Any labour disruptions and any costs associated with labour disruptions at the Company's mills could have a material adverse effect on the Company's production levels and results of operations. The Company has collective agreements with UNIFOR and the PPWC (Pulp, Paper and Woodworkers of Canada), with both agreements expiring on April 30, 2017. Any inability to negotiate acceptable contracts with the unions as they expire could result in a strike or work stoppage by the affected workers and increased operating costs as a result of higher wages or benefits paid to unionized workers. Market conditions may cause shortages of both professional and skilled labour, which could have an adverse impact on the operation and management of CPPI's facilities.

OUTSTANDING SHARE DATA

At December 31, 2015 and February 17, 2016, there were 68,951,872 common shares issued and outstanding.

DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Company has established disclosure controls and procedures to ensure that information disclosed in this MD&A and the related financial statements was properly recorded, processed, summarized and reported to the Board of Directors and the Audit Committee. The Company's chief executive officer ("CEO") and chief financial officer ("CFO") have evaluated the effectiveness of these disclosure controls and procedures for the year ending December 31, 2015, and have concluded that they are effective.

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

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