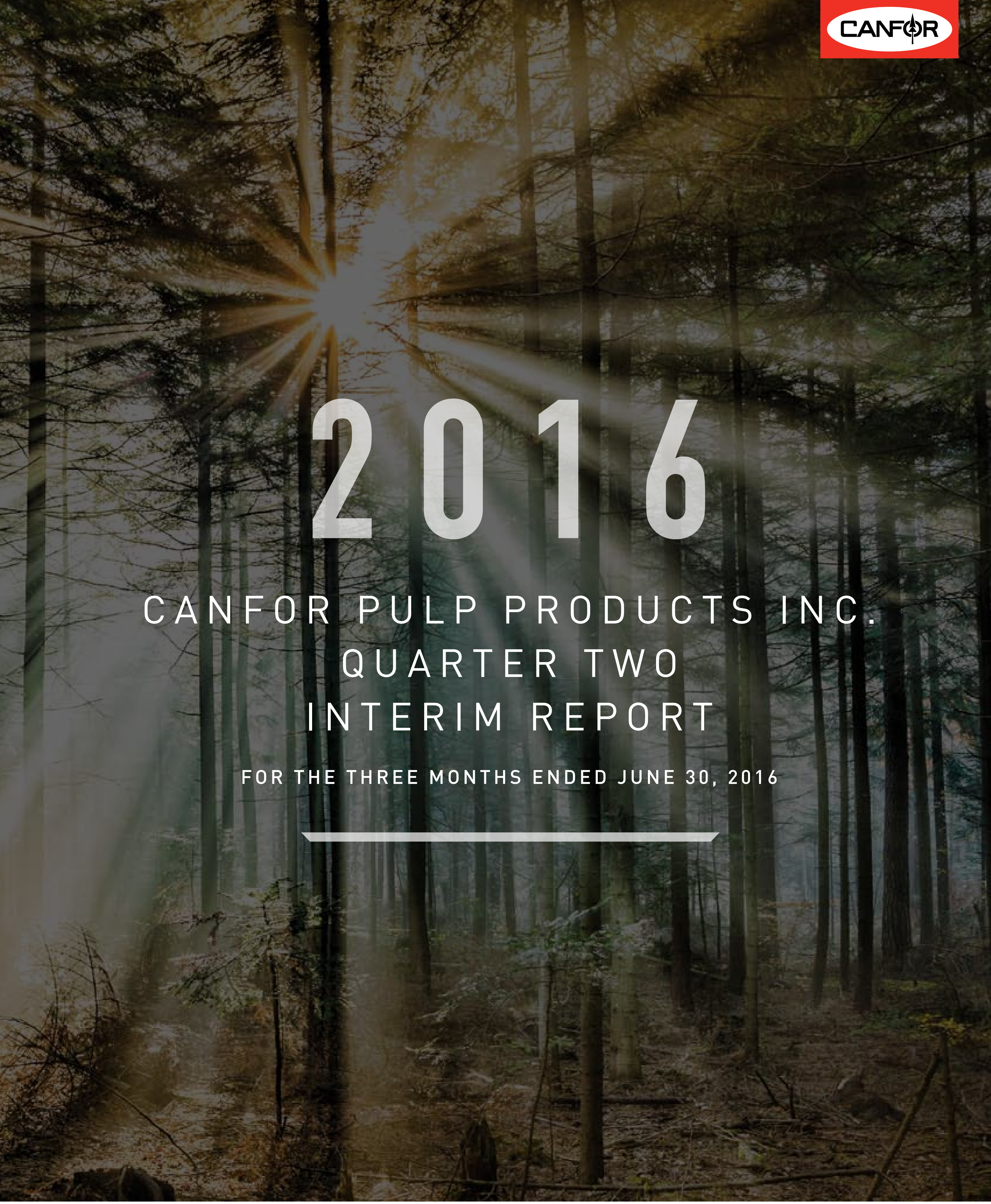

2016

CANFOR PULP PRODUCTS INC. QUARTER TWO INTERIM REPORT

FOR THE THREE MONTHS ENDED JUNE 30, 2016

To Our Shareholders

Canfor Pulp Products Inc. ("CPPI") reported net income of $2.2 million, or $0.03 per share, for the second quarter of 2016, compared to $23.1 million, or $0.34 per share, for the first quarter of 2016 and $17.7 million, or $0.25 per share, for the second quarter of 2015. For the six months ended June 30, 2016, the Company's net income was $25.3 million, or $0.37 per share, compared to $45.7 million, or $0.65 per share, for the six months ended June 30, 2015.

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

(millions of Canadian dollars, except per share amounts)	**Q2 2016**	Q1 2016	**YTD 2016**	Q2 2015	YTD 2015
Sales	**$ 257.2**	$ 295.3	**$ 552.5**	$ 276.0	$ 549.8
Operating income before amortization	**$ 22.1**	$ 57.8	**$ 79.9**	$ 36.4	$ 93.5
Operating income	**$ 5.2**	$ 39.1	**$ 44.3**	$ 20.9	$ 62.3
Net income	**$ 2.2**	$ 23.1	**$ 25.3**	$ 17.7	$ 45.7
Net income per share, basic and diluted	**$ 0.03**	$ 0.34	**$ 0.37**	$ 0.25	$ 0.65
Adjusted net income	**$ 2.2**	$ 23.1	**$ 25.3**	$ 13.0	$ 48.0
Adjusted net income per share, basic and diluted	**$ 0.03**	$ 0.34	**$ 0.37**	$ 0.18	$ 0.68

The Company had no items affecting comparability in the second quarter of 2016 or for the six months ended June 30, 2016. Adjusted net income was $13.0 million, or $0.18 per share, for the second quarter of 2015 and $48.0 million, or $0.68 per share, for the six months ended June 30, 2015.

The Company reported operating income of $5.2 million for the second quarter of 2016, down $33.9 million from $39.1 million reported for the first quarter of 2016. Results in the second quarter reflected scheduled maintenance outages taken at all three of the Company's Northern Bleached Softwood Kraft ("NBSK") pulp mills and its kraft paper operation as well as lower NBSK pulp unit sales realizations and energy revenues.

Positive pricing momentum in global softwood pulp markets during the second quarter of 2016 was due mostly to the impact of industry spring maintenance outages and solid demand, particularly from China. The average North American US-dollar NBSK pulp list price, as published by RISI, was up US$37 per tonne, or 4%, to US$980 per tonne, while the average price to China was up US$27 per tonne, or 5%. However, NBSK pulp unit sales realizations showed a modest decline from the previous quarter as price increases were outweighed by the 5 cent, or 7%, stronger Canadian dollar and a higher proportion of shipments at the beginning of the quarter when NBSK prices were lower. Similarly, Bleached Chemi-Thermo Mechanical Pulp ("BCTMP") US-dollar list prices also trended positively in the second quarter of 2016 but the increases were offset by the stronger Canadian dollar. Lower energy revenue in the current quarter reflected both increased scheduled maintenance downtime and seasonally lower energy prices.

Pulp shipment and production volumes were down 10% and 13%, respectively, from the previous quarter principally reflecting the impact of the aforementioned scheduled maintenance outages and, to a lesser extent, isolated unplanned disruptions prior to the scheduled outages, which reduced market NBSK pulp production by approximately 40,000 tonnes compared to the 38,000 tonne impact forecast in the previous quarter's press release. NBSK unit manufacturing costs were substantially higher than the previous quarter principally as a result of the scheduled maintenance outages. BCTMP production volumes and unit manufacturing costs were broadly in line with the first quarter of 2016.

Operating income in the Company's paper segment at $5.5 million was down $3.4 million from the first quarter of 2016. Lower earnings compared to the previous quarter was largely due to lower paper unit sales realizations and a five day scheduled maintenance outage in the current quarter, partially offset by increased shipments as well as lower prices for slush pulp.

During the second quarter of 2016, the Company repurchased over 1.8 million common shares for $19.5 million at an average price of $10.60 per common share and paid a quarterly dividend of $0.0625 per common share. Since inception of the Normal Course Issuer Bid program in 2013, the Company has repurchased over 4.5 million common shares for $54.4 million representing approximately 6.4% of the Company's common shares outstanding at the beginning of the program.

Looking ahead, with global softwood inventories at the low end of the balanced range and steady market demand, it is anticipated that prices will remain stable through the third quarter of 2016. Looking towards the end of 2016 and into 2017, there continues to be a risk of downward pressure on pricing due in part to previously announced new pulp capacity forecast to come online in the latter part of 2016. For the month of July 2016, the Company announced NBSK pulp list prices of US$1,000 per tonne in North America unchanged from June 2016.

On July 26, 2016, the Board of Directors declared a quarterly dividend of $0.0625 per share, payable on August 16, 2016 to the shareholders of record on August 9, 2016.

Michael J. Korenberg
Chairman

Don B. Kayne
Chief Executive Officer

Canfor Pulp Products Inc.
Second Quarter 2016
Management's Discussion and Analysis

This interim Management's Discussion and Analysis ("MD&A") provides a review of Canfor Pulp Products Inc.'s ("CPPI" or "the Company") financial performance for the quarter ended June 30, 2016 relative to the quarters ended March 31, 2016 and June 30, 2015, and the financial position of the Company at June 30, 2016. It should be read in conjunction with CPPI's unaudited interim consolidated financial statements and accompanying notes for the quarters ended June 30, 2016 and 2015, as well as the 2015 annual MD&A and the 2015 audited consolidated financial statements and notes thereto, which are included in CPPI's Annual Report for the year ended December 31, 2015 (available at www.canfor.com). The financial information in this interim MD&A has been prepared in accordance with International Financial Reporting Standards ("IFRS"), which is the required reporting framework for Canadian publicly accountable enterprises.

Throughout this discussion, reference is made to Operating Income (Loss) before Amortization which CPPI considers to be a relevant indicator for measuring trends in the Company's performance and its ability to generate funds to meet its debt service and capital expenditure requirements, and to pay dividends. Reference is also made to Adjusted Net Income (Loss) (calculated as Net Income (Loss) less specific items affecting comparability with prior periods – for the full calculation, see the reconciliation included in the section "Analysis of Specific Material Items Affecting Comparability of Net Income (Loss)") and Adjusted Net Income (Loss) per Share (calculated as Adjusted Net Income (Loss) divided by the weighted average number of shares outstanding during the period). Operating Income (Loss) before Amortization, Adjusted Net Income (Loss) and Adjusted Net Income (Loss) per Share are not generally accepted earnings measures and should not be considered as an alternative to net income or cash flows as determined in accordance with IFRS. As there is no standardized method of calculating these measures, CPPI's Operating Income (Loss) before Amortization, Adjusted Net Income (Loss) and Adjusted Net Income (Loss) per Share may not be directly comparable with similarly titled measures used by other companies. Reconciliations of Operating Income (Loss) before Amortization to Operating Income (Loss) and Adjusted Net Income (Loss) to Net Income (Loss) reported in accordance with IFRS are included in this MD&A. Throughout this discussion reference is made to the current quarter which refers to the results for the second quarter of 2016.

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

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

Forward Looking Statements

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

SECOND QUARTER 2016 OVERVIEW

Selected Financial Information and Statistics

(millions of Canadian dollars, except per share amounts)		Q2 2016		Q1 2016		YTD 2016		Q2 2015		YTD 2015
Operating income (loss) by segment:										
Pulp	**$**	**1.8**	$	33.0	**$**	**34.8**	$	18.1	$	54.4
Paper	**$**	**5.5**	$	8.9	**$**	**14.4**	$	5.7	$	13.6
Unallocated	**$**	**(2.1)**	$	(2.8)	**$**	**(4.9)**	$	(2.9)	$	(5.7)
Total operating income	**$**	**5.2**	$	39.1	**$**	**44.3**	$	20.9	$	62.3
Add: Amortization[1]	**$**	**16.9**	$	18.7	**$**	**35.6**	$	15.5	$	31.2
Total operating income before amortization	**$**	**22.1**	$	57.8	**$**	**79.9**	$	36.4	$	93.5
Add (deduct):										
Working capital movements	**$**	**31.9**	$	(12.8)	**$**	**19.1**	$	(1.1)	$	(10.6)
Defined benefit pension plan contributions, net	**$**	**(1.4)**	$	(1.2)	**$**	**(2.6)**	$	(1.3)	$	(1.7)
Income taxes paid, net	**$**	**(2.6)**	$	(11.6)	**$**	**(14.2)**	$	(3.2)	$	(15.7)
Other operating cash flows, net	**$**	**(1.5)**	$	(3.9)	**$**	**(5.4)**	$	(0.3)	$	4.6
Cash from operating activities	**$**	**48.5**	$	28.3	**$**	**76.8**	$	30.5	$	70.1
Add (deduct):										
Dividends paid	**$**	**(4.3)**	$	(4.3)	**$**	**(8.6)**	$	(4.4)	$	(8.8)
Finance expenses paid	**$**	**(0.5)**	$	(0.8)	**$**	**(1.3)**	$	(0.6)	$	(1.1)
Capital additions, net	**$**	**(18.6)**	$	(13.1)	**$**	**(31.7)**	$	(12.8)	$	(26.2)
Acquisition of Taylor Pulp Mill	**$**	**-**	$	-	**$**	**-**	$	-	$	(12.6)
Share purchases	**$**	**(19.4)**	$	(5.0)	**$**	**(24.4)**	$	(7.3)	$	(9.0)
Other, net	**$**	**(3.5)**	$	0.2	**$**	**(3.3)**	$	0.3	$	0.5
Change in cash / operating loans	**$**	**2.2**	$	5.3	**$**	**7.5**	$	5.7	$	12.9
ROIC – Consolidated period-to-date[2]		**0.8%**		4.8%		**5.7%**		3.0%		10.1%
Average exchange rate (US$ per C$1.00)[3]	**$**	**0.776**	$	0.728	**$**	**0.752**	$	0.813	$	0.810

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

[2] Consolidated Return on Invested Capital ("ROIC") is equal to operating income, plus realized gains/losses on derivatives and other income/expense, divided by the average invested capital during the period. Invested capital is equal to capital assets, plus long-term investments and net non-cash working capital. The year-to-date ROIC may not equal the sum of the quarterly amounts due to rounding and the impact of the average invested capital balance during the applicable period.

[3] Source – Bank of Canada (average noon rate for the period).

Analysis of Specific Material Items Affecting Comparability of Net Income

After-tax impact

(millions of Canadian dollars, except per share amounts)		Q2 2016		Q1 2016		YTD 2016		Q2 2015		YTD 2015
Net income, as reported	**$**	**2.2**	$	23.1	**$**	**25.3**	$	17.7	$	45.7
(Gain) loss on derivative financial instruments	**$**	**-**	$	-	**$**	**-**	$	(3.4)	$	3.6
Mark-to-market gain on Taylor Pulp contingent consideration[4]	**$**	**-**	$	-	**$**	**-**	$	(1.3)	$	(1.3)
Net impact of above items	**$**	**-**	$	-	**$**	**-**	$	(4.7)	$	2.3
Adjusted net income	**$**	**2.2**	$	23.1	**$**	**25.3**	$	13.0	$	48.0
Net income per share (EPS), as reported	**$**	**0.03**	$	0.34	**$**	**0.37**	$	0.25	$	0.65
Net impact of above items per share	**$**	**-**	$	-	**$**	**-**	$	(0.07)	$	0.03
Adjusted net income per share	**$**	**0.03**	$	0.34	**$**	**0.37**	$	0.18	$	0.68

[4] As part of the purchase of the Taylor Pulp Mill on January 30, 2015, CPPI may pay contingent consideration based on the Taylor Pulp Mill's future earnings over a three year period. On the acquisition date, the contingent consideration was valued at $1.8 million. During the second quarter of 2015, the contingent consideration liability was revalued to nil, resulting in a gain of $1.8 million (before tax) recorded to Other Income (see further discussion in the "Purchase of Taylor Pulp Mill" section).

The Company reported operating income of $5.2 million for the second quarter of 2016, down $33.9 million from $39.1 million reported for the first quarter of 2016. Results in the second quarter reflected scheduled maintenance outages taken at all three of the Company's Northern Bleached Softwood Kraft ("NBSK") pulp mills and its kraft paper operation as well as lower NBSK pulp unit sales realizations and energy revenues.

Positive pricing momentum in global softwood pulp markets during the second quarter of 2016 was due mostly to the impact of industry spring maintenance outages and solid demand, particularly from China. The average North American US-dollar NBSK pulp list price, as published by RISI, was up US$37 per tonne, or 4%, to US$980 per tonne, while the average price to China was up US$27 per tonne, or 5%. However, NBSK pulp unit sales realizations showed a modest decline from the previous quarter as price increases were outweighed by the 5 cent, or 7%, stronger Canadian dollar and a higher proportion of shipments at the beginning of the quarter when NBSK prices were lower. Similarly, Bleached Chemi-Thermo Mechanical Pulp ("BCTMP") US-dollar list prices also trended positively in the second quarter of 2016 but the increases were offset by the stronger Canadian dollar. Lower energy revenue in the current quarter reflected both increased scheduled maintenance downtime and seasonally lower energy prices.

Pulp shipment and production volumes were down 10% and 13%, respectively, from the previous quarter principally reflecting the impact of the aforementioned scheduled maintenance outages and, to a lesser extent, isolated unplanned disruptions before the scheduled outages, which reduced market NBSK pulp production by approximately 40,000 tonnes compared to the 38,000 tonne impact forecast in the previous quarter's press release. NBSK unit manufacturing costs were substantially higher than the previous quarter principally as a result of the scheduled maintenance outages. BCTMP production volumes and unit manufacturing costs were broadly in line with the first quarter of 2016.

Operating income in the Company's paper segment at $5.5 million was down $3.4 million from the first quarter of 2016. Lower earnings compared to the previous quarter was largely due to lower paper unit sales realizations and a five day scheduled maintenance outage in the current quarter, partially offset by increased shipments as well as lower prices for slush pulp.

During the second quarter of 2016, the Company repurchased over 1.8 million common shares for $19.5 million at an average price of $10.60 per common share and paid a quarterly dividend of $0.0625 per common share. Since inception of the Normal Course Issuer Bid program in 2013, the Company has repurchased over 4.5 million common shares for $54.4 million representing approximately 6.4% of the Company's common shares outstanding at the beginning of the program.

Compared to the second quarter of 2015, operating income was down $15.7 million largely reflecting lower NBSK pulp unit sales realizations and the quarter-over-quarter impact of the scheduled maintenance outages. In the comparative second quarter of 2015, the Company completed scheduled maintenance outages at the Intercontinental and Prince George NBSK pulp mills as well as the Taylor BCTMP mill which reduced total market pulp production by approximately 14,000 tonnes. The average North American US-dollar NBSK list price was consistent with second quarter of 2015 at US$980 per tonne while the average NBSK price to China was down US$58 per tonne. Moderately lower NBSK unit sales realizations compared to the same quarter in 2015 were largely due to lower prices to China and proportionately lower shipments to the higher-value North American market in the current quarter, which outweighed the benefit of the weaker Canadian dollar.

Operating results in the Company's paper segment were broadly in line with the same quarter in 2015 as the benefit of a weaker Canadian dollar, lower prices for slush pulp and higher shipment volumes were offset by lower US-dollar paper prices in the current quarter. The Company also took a nine-day scheduled maintenance outage at the paper machine in the second quarter of 2015 reducing paper production by approximately 3,300 tonnes approximately double that for the current quarter.

OPERATING RESULTS BY BUSINESS SEGMENT

Pulp

Selected Financial Information and Statistics – Pulp

(millions of Canadian dollars, unless otherwise noted)	Q2 2016	Q1 2016	YTD 2016	Q2 2015	YTD 2015
Sales	$ 210.6	$ 249.8	$ 460.4	$ 234.0	$ 465.7
Operating income before amortization[5]	$ 17.8	$ 50.7	$ 68.5	$ 32.8	$ 83.9
Operating income	$ 1.8	$ 33.0	$ 34.8	$ 18.1	$ 54.4
Average pulp price delivered to US – US$[6]	$ 980	$ 943	$ 962	$ 980	$ 988
Average price in Cdn$[6]	$ 1,263	$ 1,295	$ 1,279	$ 1,205	$ 1,220
Production – pulp (000 mt)[7]	279.6	321.8	601.4	294.6	582.4
Shipments – pulp (000 mt)[7]	287.2	319.1	606.3	291.9	564.0
Marketed on behalf of Canfor[7]	-	-	-	-	15.2

[5] Amortization includes amortization of certain capitalized major maintenance costs.
[6] Per tonne, NBSK pulp list price delivered to US (as published by RISI); Average price in Cdn$ calculated as average pulp price delivered to US – US$ multiplied by the average exchange rate – C$ per US$1.00 according to Bank of Canada average noon rate for the period.
[7] Pulp production and shipment volumes in 2015 include BCTMP volumes subsequent to CPPI's purchase of the Taylor BCTMP Mill on January 30, 2015 (see further discussion in the "Purchase of Taylor Pulp Mill" section). Following the sale, CPPI no longer markets any product on behalf of Canfor.

Overview

Operating income for the pulp segment was $1.8 million for the second quarter, down $31.2 million from the first quarter of 2016 and down $16.3 million from the same quarter in 2015.

The lower pulp segment results reflected scheduled maintenance outages taken at all three NBSK pulp mills and, to a lesser extent, isolated unplanned disruptions which reduced production by approximately 40,000 tonnes compared to the previous quarter and, after taking account of scheduled outages in the second quarter of 2015, reduced production by approximately 26,000 tonnes compared to the same quarter in 2015. The pulp segment's lower operating earnings also reflected a decline in NBSK pulp unit sales realizations and lower energy revenues associated with fewer operating days and seasonally lower energy prices. Offsetting these factors somewhat were the benefits of lower unit fibre costs and certain Scientific Research and Experimental Development ("SR&ED") tax credits recognized in the second quarter of 2016.

Markets

Positive pricing momentum in global softwood pulp markets during the second quarter of 2016 was due in part to the impact of industry spring maintenance outages and solid demand, particularly from China. Pulp producer inventories as of May 2016 were at 27 days of supply, a decrease of 3 days from March 2016[8]. Market conditions are generally considered balanced when inventories are in the 27-30 days of supply range.

Global shipments of bleached softwood pulp were up 3.6% for the first five months of 2016 as compared to the same period in 2015, driven primarily by increased shipments to China, and to a lesser extent North America[9].

Sales

Total pulp shipments in the second quarter of 2016 were 287,200 tonnes, down 31,900 tonnes, or 10%, from the first quarter of 2016 and down 4,700 tonnes, or 2%, from the second quarter of 2015. Lower pulp shipments in the current quarter for the most part reflected the lower NBSK pulp production. BCTMP shipments made up approximately 21% of the current quarter's total pulp shipments, up approximately 3% from the previous quarter.

The average North American US-dollar NBSK pulp list price, as published by RISI, was up US$37 per tonne, or 4%, from the previous quarter while the average price to China was up US$27 per tonne, or 5%. NBSK pulp unit sales realization showed a modest decline compared to the first quarter of 2016 as the US-dollar NBSK price increases and increased sales to North America were outweighed by a 5 cent, or 7%, stronger Canadian dollar and a higher proportion of shipments at the beginning of the second quarter when NBSK prices were lower. BCTMP markets showed signs of improvement in the second quarter of 2016 with US-dollar prices trending upwards through the quarter but these increases were offset by the stronger Canadian dollar.

[8] 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").
[9] As reported PPPC statistics.

Compared to the second quarter of 2015, the average North American US-dollar pulp list price was unchanged while the average price to China was down US$58 per tonne. The Company's average NBSK unit sales realizations were moderately lower than the second quarter of 2015 as lower US-dollar prices to China and proportionately lower NBSK pulp shipments to the higher-value North American market outweighed the benefit of the weaker Canadian dollar and lower freight costs. BCTMP unit sales realizations were well down from the second quarter of 2015 reflecting lower US-dollar BCTMP prices which more than offset the weaker Canadian dollar.

The contribution from the Company's energy business was down compared to the previous quarter of 2016 reflecting lower power generation due to the scheduled maintenance outages in the current quarter and seasonally lower energy prices. Energy revenues are anticipated to return to more normalized levels in the third quarter of 2016.

Operations

Pulp production in the second quarter of 2016 at 279,600 tonnes was down 42,200 tonnes, or 13%, from the first quarter of 2016 and down 15,000 tonnes, or 5%, from the second quarter of 2015. During the second quarter of 2016, the Company completed scheduled maintenance outages at all three NBSK pulp mills which combined with isolated unplanned disruptions reduced pulp production by approximately 40,000 tonnes in the quarter. Major scheduled maintenance outages were completed at the Northwood and Intercontinental NBSK pulp mills while a minor scheduled maintenance outage was completed at the Prince George NBSK pulp mill. BCTMP production was in line with the previous quarter and made up approximately 20% of the Company's total pulp production during the second quarter of 2016. In the second quarter of the prior year, the Company completed scheduled maintenance outages at the Intercontinental and Prince George NBSK pulp mills as well as the BCTMP Taylor pulp mill which reduced total market pulp production by approximately 14,000 tonnes.

Pulp unit manufacturing costs were materially higher in the current quarter principally reflecting costs associated with the aforementioned maintenance outages. Fibre costs were down slightly compared to the previous quarter largely reflecting lower delivered costs for sawmill residual chips (linked to Canadian dollar NBSK pulp sales realizations) and, to a lesser extent, a lower proportion of higher-cost whole log chips purchased. Offsetting these factors was a seasonal improvement in chip quality which increased the price for sawmill residual chips.

Pulp unit manufacturing costs were broadly in line with the second quarter of 2015 as lower fibre and energy costs offset the incremental costs associated with the maintenance outages in the current quarter. Fibre costs were down compared to the same quarter in the prior year reflecting lower market prices for delivered sawmill residual chips.

Paper

Selected Financial Information and Statistics – Paper

(millions of Canadian dollars unless otherwise noted)	**Q2 2016**	Q1 2016	**YTD 2016**	Q2 2015	YTD 2015
Sales	**$ 45.5**	$ 45.2	**$ 90.7**	$ 42.0	$ 82.6
Operating income before amortization[10]	**$ 6.4**	$ 9.9	**$ 16.3**	$ 6.5	$ 15.3
Operating income	**$ 5.5**	$ 8.9	**$ 14.4**	$ 5.7	$ 13.6
Production – paper (000 mt)	**32.1**	35.3	**67.4**	31.0	66.4
Shipments – paper (000 mt)	**38.5**	34.9	**73.4**	33.8	65.9

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

Overview

Operating income for the paper segment at $5.5 million for the second quarter of 2016 was down $3.4 million from the previous quarter and broadly in line with the same quarter of 2015. The lower earnings in the current quarter were attributable to lower unit sales realizations as a result of the strengthening Canadian dollar and, to a lesser extent, a lower-value regional sales mix coupled with the impact of a five day scheduled maintenance outage in the quarter. Offsetting these factors were increased total shipment volumes and lower prices for slush pulp in the second quarter of 2016. Compared to the second quarter of 2015, the benefit of a weaker Canadian dollar, lower prices for slush pulp and higher shipment volumes offset lower US-dollar kraft paper prices in the current quarter.

Markets

Kraft paper demand was stable through the second quarter of 2016 and sales order files were healthy through the quarter due in part to downtime taken at several North American facilities.

Sales

The Company's paper shipments in the second quarter of 2016 at 38,500 tonnes were up 3,600 tonnes, or 10%, from first quarter of 2016 and up 4,700 tonnes, or 14%, from the same quarter in 2015. The increase in paper shipments from both comparative periods was largely the result of higher volumes sold to China and Canada in the current quarter. Paper shipments outpaced production by 6,400 tonnes due to the aforementioned scheduled maintenance outage at the Company's kraft paper operation in the current quarter, resulting in a corresponding drawdown in finished kraft paper inventory levels.

Paper unit sales realizations in the second quarter of 2016 were significantly lower than the previous quarter reflecting the 5 cent, or 7%, strengthening of the Canadian dollar and, to a lesser extent, proportionately higher shipments to China in the current quarter. Compared to the same quarter in 2015, paper unit sales realizations were moderately lower as lower US-dollar kraft paper prices and proportionately lower shipments to the North American market were partly offset by a weaker Canadian dollar.

Operations

Paper production for the second quarter of 2016 at 32,100 tonnes was down 3,200 tonnes from the first quarter of 2016 and was up 1,100 tonnes from the same quarter in 2015. The decrease in paper production volume from the previous quarter was largely due to the aforementioned five-day scheduled maintenance outage during the current quarter. No maintenance outages occurred in the first quarter of 2016 while a nine-day scheduled maintenance outage in the second quarter of 2015 reduced paper production by approximately 3,300 tonnes in that period.

Paper unit manufacturing costs were relatively flat compared to the first quarter of 2016 as lower prices for slush pulp were offset by costs associated with the scheduled maintenance outage in the current quarter. Compared to the second quarter of 2015, paper unit manufacturing costs were slightly lower principally reflecting lower slush pulp costs.

Unallocated Items

Selected Financial Information

(millions of Canadian dollars)	Q2 2016	Q1 2016	YTD 2016	Q2 2015	YTD 2015
Corporate costs	**$ (2.1)**	$ (2.8)	**$ (4.9)**	$ (2.9)	$ (5.7)
Finance expense, net	**$ (1.5)**	$ (1.6)	**$ (3.1)**	$ (1.3)	$ (2.6)
Gain (loss) on derivative financial instruments	**$ -**	$ -	**$ -**	$ 4.6	$ (4.8)
Other income (expense), net	**$ 0.5**	$ (6.6)	**$ (6.1)**	$ (0.6)	$ 6.4

Corporate costs at $2.1 million for the second quarter of 2016 were lower than both comparative periods principally reflecting the recognition of carbon offset credits as well as lower overhead costs in the quarter.

Net finance expense for the second quarter of 2016 at $1.5 million was broadly in line with both comparative periods and relates primarily to interest expense associated with Company's employee future benefit plans and term debt.

The Company uses a variety of derivative financial instruments as partial economic hedges against unfavourable changes in foreign exchange rates, energy costs, interest rates and pulp prices. In the second quarter of 2016, the Company had no derivative financial instruments outstanding. A gain of $4.6 million in the second quarter of 2015, related to unrealized mark-to-market gains on US dollar foreign exchange collars.

Other income of $0.5 million in the second quarter of 2016 principally reflected foreign exchange movements on US dollar denominated working capital balances. In the previous quarter, the Company recorded a $6.6 million dollar exchange loss on working capital as a result of the strengthening of the Canadian dollar.

Other Comprehensive Income (Loss)

In the second quarter of 2016, the Company recorded an after-tax loss of $9.4 million in relation to changes in the valuation of the Company's employee future benefit plans. Compared to the first quarter of 2016, the loss principally reflected a 0.5% decrease in the discount rate used to value the employee future benefit plans offset by the return generated on plan assets. This compared to an after-tax loss of $3.5 million in the previous quarter and an after-tax gain $4.5 million in the second quarter of 2015.

SUMMARY OF FINANCIAL POSITION

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

(millions of Canadian dollars, except for ratios)	Q2 2016	Q1 2016	YTD 2016	Q2 2015	YTD 2015
Increase (decrease) in cash and cash equivalents	**$ 2.2**	$ 5.3	**$ 7.5**	$ 5.7	$ 12.9
Operating activities	**$ 48.5**	$ 28.3	**$ 76.8**	$ 30.5	$ 70.1
Financing activities	**$ (24.2)**	$ (10.1)	**$ (34.3)**	$ (12.3)	$ (18.9)
Investing activities	**$ (22.1)**	$ (12.9)	**$ (35.0)**	$ (12.5)	$ (38.3)
Ratio of current assets to current liabilities			**2.2 : 1**		2.5 : 1
Net debt to capitalization			**5.2%**		(8.3)%
ROIC – Consolidated period-to-date	**0.8%**	4.8%	**5.7%**	3.0%	10.1%

Changes in Financial Position

Cash generated from operating activities was $48.5 million in the second quarter of 2016, up $20.2 million from the previous quarter and $18.0 million from the second quarter of 2015. The increase in operating cash flows principally resulted from favourable movements in non-cash working capital balances partly offset by lower cash earnings in the second quarter of 2016 with the aforementioned scheduled maintenance outages contributing to lower trade accounts receivable and finished inventories at the end of the quarter.

Cash used for financing activities was $24.2 million in the second quarter of 2016, up $14.1 million from the previous quarter and up $11.9 million from the second quarter of 2015, largely due to increased share purchases under the Company's Normal Course Issuer Bid. During the current quarter, the Company purchased 1,839,831 common shares for $19.5 million (see further discussion of the shares purchased under the normal course issuer bid in the following "Liquidity and Financial Requirements" section). Cash used for financing activities in the current period included payment of a quarterly dividend for $4.3 million ($0.0625 per share). Interest paid during the quarter was $0.5 million and was broadly in line with both comparative periods. No amounts were drawn against the Company's operating loan facility at the end of the second quarter of 2016.

Cash used for investing activities of $22.1 million in the current quarter primarily related to capital expenditures associated with several capital projects including energy, maintenance of business and improvement projects. Also included in cash used for investing activities is a $3.5 million investment in Ignite Energy Resources associated with formation of the Licella Joint Venture (see further discussion in the following "Licella Pulp Joint Venture" section).

Liquidity and Financial Requirements

At June 30, 2016, CPPI had cash of $25.0 million and an undrawn $110.0 million bank loan facility with a maturity date of January 31, 2019. The Company's $20.0 million facility to cover letters of credit expired on June 30, 2016 and was not extended. On June 30, 2016, $6.1 million of letters of credit covered under the expired facility were transferred to the general operating loan facility and combined with $3.0 million already outstanding under the general operating loan facility.

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

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

On March 7, 2016, the Company renewed its normal course issuer bid whereby it can purchase for cancellation up to 3,446,139 common shares or approximately 5% of its issued and outstanding common shares as of March 1, 2016.

The renewed normal course issuer bid is set to expire on March 6, 2017. During the second quarter of 2016, CPPI purchased 1,839,831 common shares for $19.5 million (an average of $10.60 per common share). Cash payments for share purchases in the second quarter of 2016 were $19.4 million with the additional $0.1 million paid at the beginning of July. As at July 26, 2016, Canfor's ownership interest in CPPI was 53.6%. The Company may purchase more shares through the balance of 2016 subject to the terms of the normal course issuer bid.

Dividends

On July 26, 2016, the Board of Directors declared a quarterly dividend of $0.0625 per share, payable on August 16, 2016 to the shareholders of record on August 9, 2016.

Licella Pulp Joint Venture

On May 27, 2016, CPPI and Licella Fibre Fuel Pty Ltd. ("Licella") agreed to form a joint venture under the name Licella Pulp Joint Venture to investigate opportunities to integrate Licella's Catalytic Hydrothermal Reactor platform into CPPI's pulp mills with the objective of economically converting biomass into biofuels and biochemicals.

Licella is a subsidiary of Ignite Energy Resources Ltd. ("IER") an Australian energy technology development company. In conjunction with the joint venture agreement, CPPI provided a $7.0 million convertible credit facility to IER, which matures on June 21, 2019. The advances on this credit facility are convertible, at CPPI's option, into common shares of IER.

During the second quarter of 2016, CPPI advanced $3.5 million to IER and exercised its option to convert the amount advanced into common shares of IER. The remaining credit facility balance of $3.5 million is anticipated to be advanced to IER during the fourth quarter of 2016.

Purchase of Taylor Pulp Mill

On January 30, 2015, CPPI completed the purchase of the Taylor pulp mill from Canfor for cash consideration of $12.6 million including working capital. The acquisition also included a long-term fibre supply agreement under which Canfor will supply the Taylor pulp mill with fibre at prices that approximate fair market value. In addition to the cash consideration paid on the acquisition date, CPPI may also pay contingent consideration to Canfor, based on the Taylor pulp mill's annual adjusted operating income before amortization over a three year period, starting January 31, 2015. On the acquisition date, the fair value of the contingent consideration was $1.8 million and was recorded as a long-term provision. CPPI recognized long-term assets acquired net of liabilities assumed at a fair value of $2.8 million and net working capital of $11.6 million. The acquisition was accounted for in accordance with IFRS 3, *Business Combinations.*

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

In 2015, CPPI reversed the $1.8 million contingent consideration provision resulting in a gain recorded to Other Income to reflect lower forecast BCTMP prices over the contingent consideration period. The fair value of the contingent consideration provision was nil at June 30, 2016.

OUTLOOK

Pulp Markets

Global softwood markets are balanced heading into the seasonally slower summer months. With inventories at the low end of the balanced range and market demand stable, it is anticipated that current pricing will be supported through the third quarter of 2016. Looking towards the end of 2016 and into 2017, there continues to be a risk of downward pressure on pricing due in part to previously announced new pulp capacity forecast to come online in the latter part of 2016. For the month of July 2016, the Company announced NBSK pulp list prices of US$1,000 per tonne in North America unchanged from June 2016.

The Prince George NBSK pulp mill has a maintenance outage scheduled for the third quarter of 2016 with projected reduced production of approximately 4,000 tonnes and the Taylor BCTMP mill will complete a maintenance outage in the fourth quarter of 2016 with projected reduced production of approximately 8,000 tonnes.

Paper Markets

North American kraft paper markets are projected to remain steady through the third quarter of 2016. Heading into the fourth quarter of 2016 there is potential price pressure as global demand for sack kraft has not yet shown signs of rebounding.

The kraft paper machine has a maintenance outage scheduled for the third quarter of 2016 with projected reduced production of approximately 3,500 tonnes.

OUTSTANDING SHARES

At July 26, 2016, there were 66,699,368 common shares of the Company outstanding.

CRITICAL ACCOUNTING ESTIMATES

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

ACCOUNTING STANDARDS ISSUED AND NOT APPLIED

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

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

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

INTERNAL CONTROLS OVER FINANCIAL REPORTING

During the quarter ended June 30, 2016, there were no changes in the Company's internal controls over financial reporting that materially affected, or would be reasonably likely to materially affect, such controls.

RISKS AND UNCERTAINTIES

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

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

SELECTED QUARTERLY FINANCIAL INFORMATION

	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015	Q4 2014	Q3 2014
Sales and income (millions of Canadian dollars)								
Sales	**$ 257.2**	$ 295.3	$ 330.8	$ 294.1	$ 276.0	$ 273.8	$ 264.0	$ 237.6
Operating income before amortization[11]	**$ 22.1**	$ 57.8	$ 56.2	$ 58.7	$ 36.4	$ 57.1	$ 43.2	$ 47.7
Operating income	**$ 5.2**	$ 39.1	$ 38.6	$ 42.3	$ 20.9	$ 41.4	$ 28.0	$ 31.4
Net income	**$ 2.2**	$ 23.1	$ 29.7	$ 31.2	$ 17.7	$ 28.0	$ 20.7	$ 24.3
Per common share (Canadian dollars)								
Net income – basic and diluted	**$ 0.03**	$ 0.34	$ 0.43	$ 0.45	$ 0.25	$ 0.40	$ 0.29	$ 0.34
Book value[12]	**$ 6.88**	$ 7.15	$ 6.96	$ 6.65	$ 7.40	$ 7.17	$ 6.92	$ 6.86
Dividends declared[13]	**$ 0.0625**	$ 0.0625	$ 0.0625	$ 0.0625	$ 1.1875	$ 0.0625	$ 0.0625	$ 0.0625
Common Share Repurchases								
Share volume repurchased (000 shares)	**1,840**	413	693	557	138	490	-	178
Shares repurchased (millions of Canadian dollars)	**$ 19.5**	$ 4.9	$ 9.7	$ 6.9	$ 2.0	$ 7.0	$ -	$ 2.0
Statistics								
Pulp shipments (000 mt)	**287.2**	319.1	356.2	307.4	291.9	272.1	258.6	240.5
Paper shipments (000 mt)	**38.5**	34.9	35.4	32.1	33.8	32.1	35.8	35.7
Average exchange rate – US$/Cdn$	**$ 0.776**	$ 0.728	$ 0.749	$ 0.764	$ 0.813	$ 0.806	$ 0.881	$ 0.918
Average NBSK pulp list price delivered to US (US$)	**$ 980**	$ 943	$ 945	$ 967	$ 980	$ 995	$ 1,025	$ 1,030

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

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

After-tax impact (millions of Canadian dollars, except for per share amounts)	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015	Q4 2014	Q3 2014
Net income, as reported	**$ 2.2**	$ 23.1	$ 29.7	$ 31.2	$ 17.7	$ 28.0	$ 20.7	$ 24.3
(Gain) loss on derivative financial instruments	**$ -**	$ -	$ (0.7)	$ 3.6	$ (3.4)	$ 7.0	$ 0.6	$ 0.2
Mark-to market gain on Taylor Pulp contingent consideration[14]	**$ -**	$ -	$ -	$ -	$ (1.3)	$ -	$ -	$ -
Net impact of above items	**$ -**	$ -	$ (0.7)	$ 3.6	$ (4.7)	$ 7.0	$ 0.6	$ 0.2
Adjusted net income	**$ 2.2**	$ 23.1	$ 29.0	$ 34.8	$ 13.0	$ 35.0	$ 21.3	$ 24.5
Net income per share (EPS), as reported	**$ 0.03**	$ 0.34	$ 0.43	$ 0.45	$ 0.25	$ 0.40	$ 0.29	$ 0.34
Net impact of above items per share[15]	**$ -**	$ -	$ (0.01)	$ 0.05	$ (0.07)	$ 0.10	$ 0.01	$ -
Adjusted net income per share	**$ 0.03**	$ 0.34	$ 0.42	$ 0.50	$ 0.18	$ 0.50	$ 0.30	$ 0.34

[14] As part of the purchase of the Taylor Pulp Mill on January 30, 2015, CPPI may pay contingent consideration based on the Taylor pulp mill's future earnings over a three year period. On the acquisition date, the contingent consideration was valued at $1.8 million. During 2015, the contingent consideration liability was revalued to nil, resulting in a gain of $1.8 million (before tax) recorded to Other Income (see further discussion in the "Purchase of Taylor Pulp Mill" section).
[15] The year-to-date net impact of the adjusting items per share and adjusted net income per share does not equal the sum of the quarterly per share amounts due to rounding.

Canfor Pulp Products Inc.
Condensed Consolidated Balance Sheets

(millions of Canadian dollars, unaudited)		**As at June 30, 2016**		As at December 31, 2015
ASSETS				
Current assets				
Cash and cash equivalents	**$**	**25.0**	$	17.5
Accounts receivable - Trade		**83.0**		101.8
- Other		**14.8**		17.5
Inventories (Note 2)		**168.2**		163.8
Prepaid expenses		**8.2**		7.5
Total current assets		**299.2**		308.1
Property, plant and equipment		**524.4**		532.3
Other long-term assets		**4.4**		0.9
Total assets	**$**	**828.0**	$	841.3
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	**$**	**136.7**	$	144.2
Total current liabilities		**136.7**		144.2
Long-term debt		**50.0**		50.0
Retirement benefit obligations (Note 4)		**112.2**		93.0
Other long-term provisions		**6.6**		6.2
Deferred income taxes, net		**63.4**		68.2
Total liabilities	**$**	**368.9**	$	361.6
EQUITY				
Share capital	**$**	**491.6**	$	508.2
Retained earnings (deficit)		**(32.5)**		(28.5)
Total equity	**$**	**459.1**	$	479.7
Total liabilities and equity	**$**	**828.0**	$	841.3

Subsequent Event (Note 13)

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

APPROVED BY THE BOARD

S.E. Bracken-Horrocks

Director, S.E. Bracken-Horrocks

Director, M.J. Korenberg

Canfor Pulp Products Inc.
Condensed Consolidated Statements of Income

(millions of Canadian dollars, except per share data, unaudited)	3 months ended June 30, **2016**	3 months ended June 30, 2015	6 months ended June 30, **2016**	6 months ended June 30, 2015
Sales	**$ 257.2**	$ 276.0	**$ 552.5**	$ 549.8
Costs and expenses				
Manufacturing and product costs	**190.4**	191.5	**378.2**	362.6
Freight and other distribution costs	**38.0**	41.5	**80.5**	79.6
Amortization	**16.9**	15.5	**35.6**	31.2
Selling and administration costs	**6.7**	6.6	**13.9**	14.1
	252.0	255.1	**508.2**	487.5
Operating income	**5.2**	20.9	**44.3**	62.3
Finance expense, net	**(1.5)**	(1.3)	**(3.1)**	(2.6)
Gain (loss) on derivative financial instruments (Note 5)	**-**	4.6	**-**	(4.8)
Other income (expense), net	**0.5**	(0.6)	**(6.1)**	6.4
Net income before income taxes	**4.2**	23.6	**35.1**	61.3
Income tax expense (Note 6)	**(2.0)**	(5.9)	**(9.8)**	(15.6)
Net income	**$ 2.2**	$ 17.7	**$ 25.3**	$ 45.7
Net income per common share: (in Canadian dollars)				
Attributable to equity shareholders of the Company				
- Basic and diluted (Note 7)	**$ 0.03**	$ 0.25	**$ 0.37**	$ 0.65

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

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

(millions of Canadian dollars, unaudited)	3 months ended June 30, **2016**	3 months ended June 30, 2015	6 months ended June 30, **2016**	6 months ended June 30, 2015
Net income	**$ 2.2**	$ 17.7	**$ 25.3**	$ 45.7
Other comprehensive income (loss)				
Items that will not be recycled through net income:				
Defined benefit pension plan actuarial gains (losses) (Note 4)	**(12.8)**	6.1	**(17.5)**	3.1
Income tax recovery (expense) on defined benefit pension plan actuarial gains (losses) (Note 6)	**3.4**	(1.6)	**4.6**	(0.8)
Other comprehensive income (loss), net of tax	**(9.4)**	4.5	**(12.9)**	2.3
Total comprehensive income (loss)	**$ (7.2)**	$ 22.2	**$ 12.4**	$ 48.0

Condensed Consolidated Statements of Changes in Equity

(millions of Canadian dollars, unaudited)	3 months ended June 30, **2016**	3 months ended June 30, 2015	6 months ended June 30, **2016**	6 months ended June 30, 2015
Share capital				
Balance at beginning of period	**$ 505.2**	$ 518.5	**$ 508.2**	$ 522.1
Share purchases (Note 7)	**(13.6)**	(1.0)	**(16.6)**	(4.6)
Balance at end of period	**$ 491.6**	$ 517.5	**$ 491.6**	$ 517.5
Retained earnings (deficit)				
Balance at beginning of period	**$ (15.1)**	$ (14.5)	**$ (28.5)**	$ (32.5)
Net income	**2.2**	17.7	**25.3**	45.7
Defined benefit pension plan actuarial gains (losses), net of tax	**(9.4)**	4.5	**(12.9)**	2.3
Dividends declared	**(4.3)**	(4.4)	**(8.6)**	(8.8)
Share purchases (Note 7)	**(5.9)**	(1.0)	**(7.8)**	(4.4)
Balance at end of period	**$ (32.5)**	$ 2.3	**$ (32.5)**	$ 2.3
Total equity	**$ 459.1**	$ 519.8	**$ 459.1**	$ 519.8

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

Canfor Pulp Products Inc.
Condensed Consolidated Statements of Cash Flows

(millions of Canadian dollars, unaudited)	3 months ended June 30, **2016**	3 months ended June 30, 2015	6 months ended June 30, **2016**	6 months ended June 30, 2015
Cash generated from (used in):				
Operating activities				
Net income	**$ 2.2**	$ 17.7	**$ 25.3**	$ 45.7
Items not affecting cash:				
Amortization	**16.9**	15.5	**35.6**	31.2
Income tax expense	**2.0**	5.9	**9.8**	15.6
Changes in mark-to-market value of derivative financial instruments	**-**	(6.1)	**-**	0.9
Employee future benefits	**1.2**	1.4	**2.5**	2.8
Finance expense, net	**1.5**	1.3	**3.1**	2.6
Other, net	**(3.2)**	0.4	**(1.8)**	(0.7)
Defined benefit pension plan contributions, net	**(1.4)**	(1.3)	**(2.6)**	(1.7)
Income taxes paid, net	**(2.6)**	(3.2)	**(14.2)**	(15.7)
	16.6	31.6	**57.7**	80.7
Net change in non-cash working capital (Note 8)	**31.9**	(1.1)	**19.1**	(10.6)
	48.5	30.5	**76.8**	70.1
Financing activities				
Finance expenses paid	**(0.5)**	(0.6)	**(1.3)**	(1.1)
Dividends paid	**(4.3)**	(4.4)	**(8.6)**	(8.8)
Share purchases (Note 7)	**(19.4)**	(7.3)	**(24.4)**	(9.0)
	(24.2)	(12.3)	**(34.3)**	(18.9)
Investing activities				
Additions to property, plant and equipment, net	**(18.6)**	(12.8)	**(31.7)**	(26.2)
Acquisition of Taylor pulp mill (Note 12)	**-**	-	**-**	(12.6)
Other, net	**(3.5)**	0.3	**(3.3)**	0.5
	(22.1)	(12.5)	**(35.0)**	(38.3)
Increase in cash and cash equivalents*	**2.2**	5.7	**7.5**	12.9
Cash and cash equivalents at beginning of period*	**22.8**	84.0	**17.5**	76.8
Cash and cash equivalents at end of period*	**$ 25.0**	$ 89.7	**$ 25.0**	$ 89.7

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

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

1. Basis of Preparation

These condensed consolidated interim financial statements (the "financial statements") have been prepared in accordance with International Accounting Standard ("IAS") 34 *Interim Financial Reporting*, and include the accounts of Canfor Pulp Products Inc. ("CPPI") and its subsidiary entities, hereinafter referred to as "CPPI" or "the Company." At July 26, 2016, Canfor Corporation ("Canfor") held a 53.6% interest in CPPI.

These financial statements do not include all of the disclosures required by International Financial Reporting Standards ("IFRS") for annual financial statements. Additional disclosures relevant to the understanding of these financial statements, including the accounting policies applied, can be found in the Company's Annual Report for the year ended December 31, 2015, available at www.canfor.com or www.sedar.com.

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

Accounting Standards Issued and Not Applied

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

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

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

2. Inventories

(millions of Canadian dollars, unaudited)		**As at June 30, 2016**		As at December 31, 2015
Pulp	**$**	**69.1**	$	71.2
Paper		**16.1**		20.9
Wood chips and logs		**31.1**		21.9
Materials and supplies		**51.9**		49.8
	$	**168.2**	$	163.8

The above inventory balances are stated after inventory write-downs from cost to net realizable value. Write-downs at June 30, 2016 totaled $0.6 million (December 31, 2015 - $0.5 million).

3. Operating Loans

Available Operating Loans

(millions of Canadian dollars, unaudited)		**As at June 30, 2016**		As at December 31, 2015
Operating loan facility	**$**	**110.0**	$	110.0
Facility for letters of credit		**-**		20.0
Total operating loan facility		**110.0**		130.0
Letters of credit		**(9.1)**		(13.0)
Total available operating loan facility	**$**	**100.9**	$	117.0

The terms of the Company's operating loan facility include interest payable at floating rates that vary depending on the ratio of debt to total capitalization, and is based on the lenders' Canadian prime rate, bankers acceptances, US dollar base rate or US dollar LIBOR rate, plus a margin. The facility has certain financial covenants including a covenant based on maximum debt to total capitalization of the Company. In 2015, the maturity date of this facility was extended to January 31, 2019 and the minimum net worth financial covenant, which was based on shareholders' equity, was removed.

CPPI had a separate facility to cover letters of credit, which expired on June 30, 2016 and was not extended. On June 30, 2016, the $6.1 million of letters of credit covered under the expired facility were transferred to the general operating loan facility and combined with the $3.0 million of letters of credit already outstanding under the general operating loan facility.

As at June 30, 2016, the Company was in compliance with all covenants relating to its operating loans.

4. Employee Future Benefits

For the three months ended June 30, 2016, defined benefit pension plan actuarial losses of $12.8 million (before tax) were recognized in other comprehensive income (loss). The losses recorded in the second quarter of 2016 principally reflect a lower discount rate used to value the net defined benefit pension plan obligations offset by the return generated on plan assets. For the six months ended June 30, 2016, an amount of $17.5 million (before tax) was charged to other comprehensive income (loss). For the three and six months ended June 30, 2015, the Company recognized before tax actuarial gains in other comprehensive income (loss) of $6.1 million and $3.1 million, respectively.

For the Company's employee future benefit plans, a one percentage point increase in the discount rate used in calculating the actuarial estimate of future liabilities would decrease the accrued benefit obligation by an estimated $26.3 million.

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

	Pension Benefit Plans	Other Benefit Plans
June 30, 2016	**3.5%**	**3.5%**
March 31, 2016	4.0%	4.0%
December 31, 2015	4.1%	4.1%
June 30, 2015	3.9%	3.9%
March 31, 2015	3.6%	3.6%
December 31, 2014	3.9%	3.9%

5. Financial Instruments

CPPI's cash and cash equivalents, accounts receivable, loans and advances, operating loans, accounts payable and accrued liabilities, and long-term debt are measured at amortized cost subsequent to initial recognition. At June 30, 2016, the fair value of the Company's long-term debt approximates its amortized cost of $50.0 million (December 31, 2015 - $50.0 million).

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

The three levels of the fair value hierarchy are:

> Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
>
> Level 2 – Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly;
>
> Level 3 – Inputs that are not based on observable market data.

The Company uses a variety of derivative financial instruments, which are included in Level 2 of the fair value hierarchy, to reduce its exposure to risks associated with fluctuations in foreign exchange rates, pulp prices, energy costs, and floating interest rates on long-term debt. As at June 30, 2016 and December 31, 2015, the Company had no derivative financial instruments outstanding.

The following table summarizes the gain (loss) on derivative financial instruments for the three and six-month periods ended June 30, 2016 and 2015:

	3 months ended June 30,		6 months ended June 30,	
(millions of Canadian dollars, unaudited)	**2016**	2015	**2016**	2015
Foreign exchange collars	**$ -**	$ 4.0	**$ -**	$ (5.0)
Crude oil collars	**-**	0.6	**-**	0.2
Gain (loss) on derivative financial instruments	**$ -**	$ 4.6	**$ -**	$ (4.8)

6. Income Taxes

	3 months ended June 30,		6 months ended June 30,	
(millions of Canadian dollars, unaudited)	**2016**	2015	**2016**	2015
Current	**$ -**	$ (3.5)	**$ (10.0)**	$ (16.2)
Deferred	**(2.0)**	(2.4)	**0.2**	0.6
Income tax expense	**$ (2.0)**	$ (5.9)	**$ (9.8)**	$ (15.6)

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

	3 months ended June 30,		6 months ended June 30,	
(millions of Canadian dollars, unaudited)	**2016**	2015	**2016**	2015
Income tax expense at statutory rate 2016 – 26.0% (2015 – 26.0%)	**$ (1.1)**	$ (6.1)	**$ (9.1)**	$ (15.9)
Add (deduct):				
Entities with different income tax rates and other tax adjustments	**(0.9)**	0.2	**(0.7)**	0.3
Income tax expense	**$ (2.0)**	$ (5.9)	**$ (9.8)**	$ (15.6)

In addition to the amounts recorded to net income, a tax recovery of $3.4 million was recorded in other comprehensive income (loss) for the three months ended June 30, 2016 (three months ended June 30, 2015 - tax expense of $1.6 million) in relation to the actuarial gains (losses) on defined benefit employee compensation plans. For the six month period ended June 30, 2016, a tax recovery of $4.6 million was recorded in other comprehensive income (loss) (six months ended June 30, 2015 - tax expense of $0.8 million).

7. Earnings per Share and Normal Course Issuer Bid

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

	3 months ended June 30,		6 months ended June 30,	
	2016	2015	**2016**	2015
Weighted average number of common shares	**67,815,261**	70,262,911	**68,340,408**	70,533,749

On March 7, 2016, the Company renewed its normal course issuer bid whereby it can purchase for cancellation up to 3,446,139 common shares or approximately 5% of its issued and outstanding common shares as of March 1, 2016. The renewed normal course issuer bid is set to expire on March 6, 2017. During the second quarter of 2016, CPPI purchased 1,839,831 common shares for $19.5 million (an average of $10.60 per common share), of which $13.6 million was charged to share capital and $5.9 million was charged to retained earnings. As at July 26, 2016, there were 66,699,368 common shares of the Company outstanding and Canfor's ownership interest in CPPI was 53.6%.

8. Net Change in Non-Cash Working Capital

(millions of Canadian dollars, unaudited)	3 months ended June 30, **2016**	3 months ended June 30, 2015	6 months ended June 30, **2016**	6 months ended June 30, 2015
Accounts receivable	**$ 18.0**	$ (0.8)	**$ 20.5**	$ (15.6)
Inventories	**5.4**	2.9	**(4.5)**	(10.3)
Prepaid expenses and other assets	**0.4**	0.4	**(0.7)**	6.1
Accounts payable and accrued liabilities	**8.1**	(3.6)	**3.8**	9.2
Net decrease (increase) in non-cash working capital	**$ 31.9**	$ (1.1)	**$ 19.1**	$ (10.6)

9. Segment Information

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

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

(millions of Canadian dollars, unaudited)	Pulp	Paper	Unallocated	Elimination Adjustment	Consolidated
3 months ended June 30, 2016					
Sales to external customers	**$ 210.6**	**45.5**	**1.1**	**-**	**$ 257.2**
Sales to other segments	**$ 19.9**	**-**	**-**	**(19.9)**	**$ -**
Operating income (loss)	**$ 1.8**	**5.5**	**(2.1)**	**-**	**$ 5.2**
Amortization	**$ 16.0**	**0.9**	**-**	**-**	**$ 16.9**
Capital expenditures[1]	**$ 18.3**	**0.3**	**-**	**-**	**$ 18.6**
3 months ended June 30, 2015					
Sales to external customers	$ 234.0	42.0	-	-	$ 276.0
Sales to other segments	$ 21.0	-	-	(21.0)	$ -
Operating income (loss)	$ 18.1	5.7	(2.9)	-	$ 20.9
Amortization	$ 14.7	0.8	-	-	$ 15.5
Capital expenditures[1]	$ 9.7	3.1	-	-	$ 12.8
6 months ended June 30, 2016					
Sales to external customers	**$ 460.4**	**90.7**	**1.4**	**-**	**$ 552.5**
Sales to other segments	**$ 42.7**	**-**	**-**	**(42.7)**	**$ -**
Operating income (loss)	**$ 34.8**	**14.4**	**(4.9)**	**-**	**$ 44.3**
Amortization	**$ 33.7**	**1.9**	**-**	**-**	**$ 35.6**
Capital expenditures[1]	**$ 31.2**	**0.5**	**-**	**-**	**$ 31.7**
Identifiable assets	**$ 729.7**	**59.0**	**39.3**	**-**	**$ 828.0**
6 months ended June 30, 2015					
Sales to external customers	$ 465.7	82.6	1.5	-	$ 549.8
Sales to other segments	$ 45.9	-	-	(45.9)	$ -
Operating income (loss)	$ 54.4	13.6	(5.7)	-	$ 62.3
Amortization	$ 29.5	1.7	-	-	$ 31.2
Capital expenditures[1]	$ 22.4	3.8	-	-	$ 26.2
Identifiable assets	$ 712.3	62.3	99.7	-	$ 874.3

[1]Capital expenditures represent cash paid for capital assets during the periods and include capital expenditures that were partially financed by government grants. Capital expenditures for the three and six months ended June 30, 2015 exclude the assets purchased as part of the acquisition of the Taylor pulp mill (Note 12).

10. Related Party Transactions

For the six months ended June 30, 2016, the Company depended on Canfor to provide approximately 64% (six months ended June 30, 2015 - 60%) of its fibre supply as well as certain key business and administrative services. As a result of these relationships the Company considers its operations to be dependent on its ongoing relationship with Canfor. The transactions with Canfor are consistent with the transactions described in the December 31, 2015 audited consolidated financial statements of CPPI and are based on agreed upon amounts between the parties.

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

	3 months ended June 30,		6 months ended June 30,	
(millions of Canadian dollars, unaudited)	**2016**	2015	**2016**	2015
Transactions				
Purchase of wood chips and other	**$ 35.9**	$ 38.4	**$ 81.9**	$ 76.3

(millions of Canadian dollars, unaudited)	**As at June 30, 2016**	As at December 31, 2015
Balance Sheet		
Included in accounts payable and accrued liabilities:	**$ 10.2**	$ 15.6

11. Licella Pulp Joint Venture

On May 27, 2016, CPPI and Licella Fibre Fuel Pty Ltd. ("Licella") agreed to form a joint venture under the name Licella Pulp Joint Venture to investigate opportunities to integrate Licella's Catalytic Hydrothermal Reactor platform into CPPI's pulp mills to economically convert biomass into biofuels and biochemicals.

Licella is a subsidiary of Ignite Energy Resources Ltd. ("IER") an Australian energy technology development company. In conjunction with the joint venture agreement, CPPI provided a $7.0 million convertible credit facility to IER, which matures on June 21, 2019. The advances on this credit facility are convertible, at CPPI's option, into common shares of IER.

During the second quarter of 2016, CPPI advanced $3.5 million to IER and exercised its option to convert the amount advanced into common shares of IER. The equity investment is classified as a level 3 available-for-sale financial instrument and is measured at fair value at each reporting period with any gains or losses recognized through other comprehensive income. At June 30, 2016, the fair value of the financial instrument is $3.5 million.

The remaining credit facility balance of $3.5 million is anticipated to be advanced to IER during the fourth quarter of 2016.

12. Purchase of Taylor Pulp Mill

On January 30, 2015, CPPI completed the purchase of the Taylor pulp mill from Canfor for cash consideration of $12.6 million including working capital. The acquisition also included a long-term fibre supply agreement under which Canfor will supply the Taylor pulp mill with fibre at prices that approximate fair market value. In addition to the cash consideration paid on the acquisition date, CPPI may also pay contingent consideration to Canfor, based on the Taylor pulp mill's annual adjusted operating income before amortization over a three-year period, starting January 31, 2015. On the acquisition date, the fair value of the contingent consideration was $1.8 million and was recorded as a long-term provision. CPPI recognized long-term assets acquired net of liabilities assumed at a fair value of $2.8 million and net working capital of $11.6 million. The acquisition was accounted for in accordance with IFRS 3 *Business Combinations.*

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

Subsequent to the acquisition date, in 2015, CPPI reversed the $1.8 million contingent consideration provision resulting in a gain recorded to Other Income to reflect lower forecast Bleached Chemi-Thermo Mechanical Pulp prices over the contingent consideration period. The fair value of the contingent consideration provision was nil at June 30, 2016.

13. Subsequent Event

On July 26, 2016, the Board of Directors declared a quarterly dividend of $0.0625 per share, payable on August 16, 2016, to shareholders of record on August 9, 2016.