CANFOR

2015

CANFOR PULP PRODUCTS INC. ANNUAL REPORT

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COMPANY OVERVIEW

CPPI is a leading global supplier of pulp and paper products with operations in the central interior of British Columbia ("BC") employing approximately 1,300 people throughout the organization. Canfor Pulp owns and operates three mills in Prince George, BC with a total capacity of 1.1 million tonnes of Premium Reinforcing Northern Bleached Softwood Kraft Pulp and 140,000 tonnes of kraft paper, as well as one mill in Taylor, BC with an annual production capacity of 220,000 tonnes of Bleached Chemi-Thermo Mechanical Pulp ("BCTMP"). Canfor Pulp is the largest North American and one of the largest global producers of market NBSK Pulp. CPPI shares are traded on The Toronto Stock Exchange under the symbol CFX.

FINANCIAL HIGHLIGHTS

		2015		2014
Sales and income (millions of Canadian dollars)				
Sales	$	1,174.7	$	980.5
Operating income	$	143.2	$	125.4
Net income	$	106.6	$	89.5
Per common share (Canadian dollars)				
Net income attributable to equity shareholders of the Company	$	1.52	$	1.26
Book value	$	6.96	$	6.92
Share price				
High	$	17.02	$	14.70
Low	$	10.11	$	9.89
Close - December 31	$	13.53	$	14.56
Financial position (millions of Canadian dollars)				
Working capital	$	163.9	$	179.2
Total assets	$	841.3	$	827.4
Net debt (cash)	$	32.5	$	(26.8)
Common shareholders' equity	$	479.7	$	489.6
Additional information[1]				
Return on invested capital - consolidated		23.0%		19.6%
Ratio of current assets to current liabilities		2.1:1		2.5:1
Ratio of net debt to capitalization		6.3%		(5.8)%
Operating income before amortization (millions of Canadian dollars)	$	208.4	$	188.1
Operating income before amortization margin		17.7%		19.2%
Capital expenditures (millions of Canadian dollars)	$	68.3	$	57.7

(1) See Definitions of Selected Financial Terms on page 57.

INNOVATION

The completion of a 32-MW turbine generator at Intercontinental Pulp means all of our three Prince George pulp mills are selling power – and we are closing in on our target to generate a million megawatt hours of clean, renewable energy annually.

MESSAGE TO SHAREHOLDERS

FROM THE PRESIDENT

Canfor Pulp had another strong year in 2015, achieved through higher NBSK pulp and kraft paper sales, improved operating rates and shipment volumes and more revenue through our energy investments. Lower NBSK prices were more than offset by a weaker Canadian dollar. In addition, Canfor Pulp completed the acquisiton of the Taylor bleached chemi-thermo-mechanical pulp ("BCTMP") mill from Canfor in January 2015. Subsequent to the acquisition, Taylor's team has become focused on their quest for top quartile, with opportunities identified within operational excellence, energy efficiency and higher margin products.

Strong operational performance resulted as improvements in the first half of the year delivered excellent results in the seconf half and have carried into 2016. This led to increased operating rates at all our NBSK Pulp Mills as we optimized new equipment and processes.

I am proud of the fact that our modern kraft mills operate as large-scale biorefineries. It allows us to manufacture premium pulp products while generating clean energy. In 2015, we completed the 32-MW turbine generator unit at Intercontinental Pulp, and are now generating and selling power from all three of our Prince George mills. As a result, our total energy revenues were up about 25% from 2014, and should go higher in 2016 with all three turbines operating for a full year. We are nearing our goal to generate a million megawatt hours annually.

In 2015, we earned FortisBC's Efficiency in Action Award in the industrial sector for upgrades at Prince George Pulp and Paper that reduced our natural gas use by 67,000 gigajoules in the first 18 months alone.

Canfor Pulp continues to be at the forefront of our industry in looking for ways to improve our products and operations. We practice open innovation through Canfor Pulp Innovation, maintaining a unique network that includes world-class consultants in refining and paper making, research organizations dedicated to the development of next-generation fibre measurement and fibre products, and university researchers.

In 2015, Canfor Pulp became the first company to use the Valmet Process Quality Vision system to inspect 100% of the pulp shipped from two of our mills. The system identifies and records dirt and shives in the finished pulp so we can be sure the pulp delivered to customers meets our high standards. This is key to pulp customers who are producing increasingly sophisticated products, and depend on high-quality pulp.

Our interest in innovation goes beyond manufacturing. In 2014, we launched Fibre United, a cooperative sales and marketing agreement with UPM Pulp. Canfor Pulp sells UPM products in North America and Japan, and UPM sells our products in Europe and China. The arrangement has been successful as we are able to sell a broader offering of products and offer enhanced technical service to our customers. Fibre United caught the attention of RISI, an authoritative global source of forest products information and data. It included Canfor Pulp on its Top 50 Power List, saying we are "pushing the envelope with a pioneering sales agreement with Finnish-based UPM, Fiber United, covering four major markets".

In 2015, I was honoured to be part of important events in Prince George. Early in the year, I completed a five-year journey as the executive chair of the Games Host Society and welcomed 500 high school students from across northern BC to Prince George when the Canada Winter Games came to the city.

We completed the year by marking the 50th anniversary of the operation of Prince George Pulp and Paper.

These events gave me a chance to look back on Canfor Pulp's proud past, and look ahead to our strong future. We have come a long way since 1965 when pulp mills "pulped" wood into its cellulose components for paper products with very little consideration for the resources that were being used. Today, we are constantly finding ways to become more efficient with water, heat and chemicals, while at the same time improving our environmental foot print. Our modern industry offers so many amazing career opportunities – it was an eye opener for many of the students we hosted at the Canada Winter Games.

I expect I will be meeting some of these students again – as members of the team of skilled, innovative employees Canfor Pulp relies on as we continue to meet our quality standards and develop our next-generation products.

As we look forward to 2016, we will continue to maintain our position as an industry leader with strong financial performance by focusing on lower operating costs while growing our productivity, optimizing our green energy business and being ready to capitalize on attractive growth opportunities. Our pulp continues to represent the strongest and highest-quality fibre in the world. The market understands that there is no substitute for quality, and while markets

naturally fluctuate, we see continued demand for NBSK pulp and paper based on its superior quality and versatility.

I would like to thank our board members for their guidance, all our employees for their daily contributions, and especially all of our shareholders for their continued confidence.

Brett Robinson
President

FROM THE CHAIRMAN

Canfor Pulp's reputation for premium products, unsurpassed customer service and cutting-edge technology consistently earn us immense brand loyalty and respect around the globe. In 2015, our board supported actions that helped us uphold this position, while achieving solid returns. Between our regular quarterly dividend, a special non-recurring dividend and share buy-backs under Canfor Pulp's normal course issuer bid, we are pleased to have returned more than $122 million to our shareholders during 2015, while maintaining a strong balance sheet to take advantage of both organic and potential non-organic opportunities.

Our operations teams delivered superior operational performance in 2015 – setting a combined production record in August 2015 of 3,476 tonnes per day across our three Prince George pulp mills. The implementation of the Valmet Process Quality Vision system to inspect 100% of the pulp shipped from two of our mills - Interncontinental and Northwood has been especiallty important to our customers because they are making increasingly sophisticated products and have every right to expect to be able to rely on the high standards they command from their suppliers.

Canfor Pulp manufactures premium pulp and specialty paper products for markets around the world – 85% of our pulp production is premium reinforcing pulp. And the organic materials that remain after the pulping process are converted into clean, renewable energy that powers our processes and British Columbia's electricity grid. In 2015, we began operating a 32-MW turbine generator at the Intercontinental pulp mill, which means we are now generating power from all three of our Prince George mills.

Renewable energy is just one example of Canfor Pulp's commitment to the environment. All of the fibre we use comes from British Columbia, and all the forest operations from which we source fibre are in full legal compliance with provincial forest laws. In 2015, 82% of this fibre supply was certified to one of three internationally recognized certification standards.

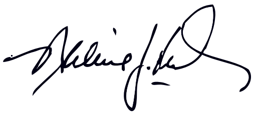
We also brought Canfor Pulp and Canfor closer together in 2015. Through our fully integrated One Canfor model, we are able to offer consistent execution across all business streams and all geographic regions. It gives us leverage others simply do not have, taking us to the next level where we can attain efficiencies and outperform competitors.

Canfor Pulp and Canfor have much in common – both depend on high-quality sustainable fibre and both have exceptional people who continually watch for ways to improve our products, our service and our operations. One Canfor is yielding multiple benefits across both companies.

In January 2015, Canfor Pulp acquired Taylor Pulp, a BCTMP mill, from Canfor. It is a strong strategic fit for Canfor Pulp, and aligns the mill with Canfor Pulp's core business and operational expertise. And, when Canfor Pulp opened a fully integrated sales office in Seoul, Korea in June 2015, we were pleased that Canfor joined us to represent its products in the Korean market. As a result, we are optimizing our strength in that market, and better serving all of our customers – pulp, paper and lumber.

I remain grateful to my fellow board members for their advice and leadership, and to our senior management who work so well with us to support Canfor Pulp's success.

My sincere thanks as well to all of our dedicated employees, who are responsible for the superb quality, customer service and operational performance that keep Canfor Pulp at the forefront of our industry, and to our many loyal customers, business partners and shareholders.



Michael Korenberg
Chairman of the Board

TECHNOLOGY

We never stop looking for ways to improve our premium products or our production efficiency. We have achieved higher tensile strengths so customers can reduce their costs by using less fibre in their paper without impacting strength or runnability.

CULTURE

Safety is our single highest priority, and we take pride in the fact that our employees consistently keep us a safety leader in our sector. In 2015, we achieved our best safety record in the last 12 years.

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MANAGEMENT'S DISCUSSION & ANALYSIS

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

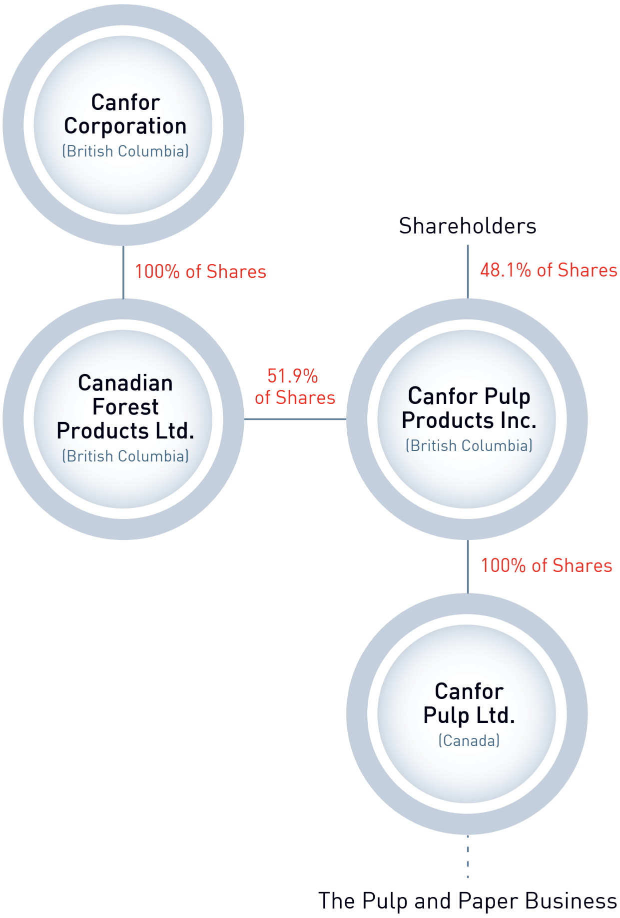
CPPI is a company incorporated and domiciled in Canada and listed on The Toronto Stock Exchange. The consolidated financial statements of the Company as at and for the year ended December 31, 2015 comprise the Company and its subsidiary entities. The Company's operations consist of two Northern Bleached 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

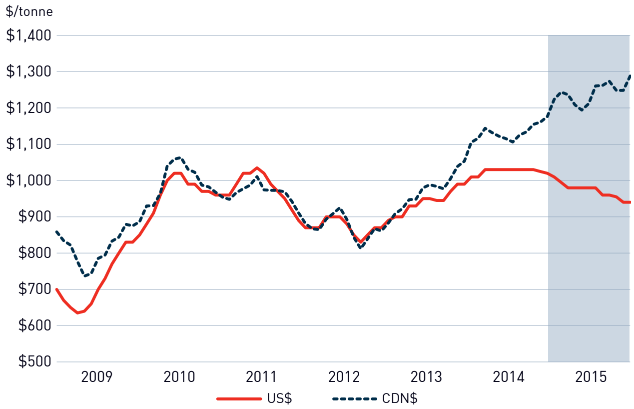
Global softwood pulp markets saw downward pressure through 2015 in all regions. While overall global pulp demand was steady, additional hardwood pulp capacity, principally from South America, was absorbed into global markets, particularly China during the year. Global softwood producer inventories increased 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.

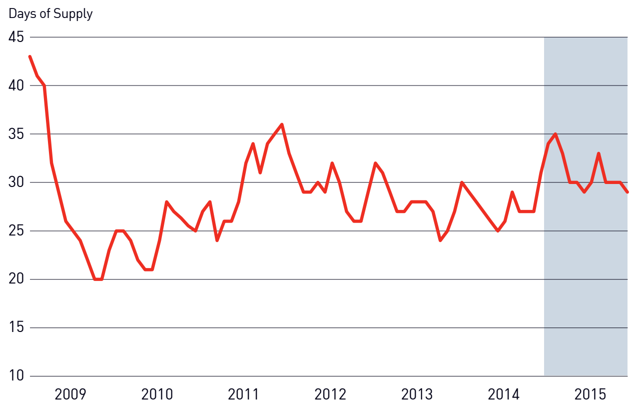
CHART 1 – NBSK PULP LIST PRICE DELIVERED TO U.S. – IN US AND CANADIAN DOLLARS



Source: Resource Information Systems Inc.

Note: Canadian price is calculated as the US price multiplied by the average monthly exchange rates per the Bank of Canada.

CHART 2 – WORLD SOFTWOOD PULP INVENTORIES



Source: Pulp and Paper Products Council

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 of 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$/CDN$)[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.

(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").

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.

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 lowered 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 equivalents 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

	2015				2014			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
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)	2015 Q4	2015 Q3	2015 Q2	2015 Q1	2014 Q4	2014 Q3	2014 Q2	2014 Q1
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 in 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.

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.

(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.

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)	2015				2014			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
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 value 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.

CONSOLIDATED FINANCIAL STATEMENTS

MANAGEMENT'S RESPONSIBILITY

The information and representations in these consolidated financial statements are the responsibility of management and have been approved by the Board of Directors. The consolidated financial statements were prepared by management in accordance with International Financial Reporting Standards and, where necessary, reflect management's best estimates and judgments at this time. It is reasonably possible that circumstances may arise which cause actual results to differ. Management does not believe it is likely that any differences will be material.

Canfor Pulp Products Inc. maintains systems of internal accounting controls, policies and procedures to provide reasonable assurance as to the reliability of the financial records and the safeguarding of its assets.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The Board carries out these activities primarily through its Audit Committee.

The Audit Committee is comprised of three Directors who are not employees of the Company. The Committee meets periodically throughout the year with management, external auditors and internal auditors to review their respective responsibilities, results of the reviews of internal accounting controls, policies and procedures and financial reporting matters. The external and internal auditors meet separately with the Audit Committee.

The consolidated financial statements have been reviewed by the Audit Committee and approved by the Board of Directors. The consolidated financial statements have been audited by KPMG LLP, the external auditors, whose report follows.

February 17, 2016

Don B. Kayne
Chief Executive Officer

Alan Nicholl
Chief Financial Officer

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF CANFOR PULP PRODUCTS INC.

We have audited the accompanying consolidated financial statements of Canfor Pulp Products Inc., which comprise the consolidated balance sheet as at December 31, 2015, the consolidated statement of income, the consolidated statement of other comprehensive income (loss), changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Canfor Pulp Products Inc. as at December 31, 2015, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

COMPARATIVE INFORMATION

The consolidated financial statements of Canfor Pulp Products Inc. as at and for the year ended December 31, 2014 were audited by another auditor who expressed an unmodified opinion on those financial statements on February 4, 2015.

February 17, 2016

KPMG LLP

KPMG LLP
Chartered Accountants
Vancouver, British Columbia

CONSOLIDATED BALANCE SHEETS

(millions of Canadian dollars)	As at December 31, 2015	As at December 31, 2014
ASSETS		
Current assets		
Cash and cash equivalents	$ 17.5	$ 76.8
Accounts receivable - Trade	101.8	60.7
- Other	17.5	10.0
Inventories (Note 5)	163.8	143.7
Prepaid expenses and other assets	7.5	11.2
Total current assets	308.1	302.4
Property, plant and equipment (Note 6)	532.3	524.1
Other long-term assets	0.9	0.9
Total assets	$ 841.3	$ 827.4
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (Note 7)	$ 144.2	$ 123.2
Total current liabilities	144.2	123.2
Long-term debt (Note 9)	50.0	50.0
Retirement benefit obligations (Note 10)	93.0	94.9
Other long-term provisions	6.2	4.2
Deferred income taxes, net (Note 14)	68.2	65.5
Total liabilities	$ 361.6	$ 337.8
EQUITY		
Share capital (Note 12)	$ 508.2	$ 522.1
Retained earnings (deficit)	(28.5)	(32.5)
Total equity	$ 479.7	$ 489.6
Total liabilities and equity	$ 841.3	$ 827.4

Commitments (Note 18) & **Subsequent Event** (Note 23)

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

APPROVED BY THE BOARD

Director, S.E. Bracken-Horrocks

Director, M.J. Korenberg

CONSOLIDATED STATEMENTS OF INCOME

Year ended December 31 (millions of Canadian dollars, except per share data)	2015	2014
Sales	$ 1,174.7	$ 980.5
Costs and expenses		
Manufacturing and product costs	769.3	635.5
Freight and other distribution costs	169.0	129.1
Amortization	65.2	62.7
Selling and administration costs	28.0	27.8
	1,031.5	855.1
Operating income	143.2	125.4
Finance expense, net (Note 13)	(6.0)	(5.5)
Loss on derivative financial instruments (Note 20)	(8.8)	(1.9)
Other income, net	14.5	2.0
Net income before income taxes	142.9	120.0
Income tax expense (Note 14)	(36.3)	(30.5)
Net income	$ 106.6	$ 89.5
Net income per common share: (in Canadian dollars)		
- Basic and diluted (Note 12)	$ 1.52	$ 1.26

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

CONSOLIDATED STATEMENTS OF OTHER COMPREHENSIVE INCOME (LOSS) AND CHANGES IN EQUITY

Year ended December 31 (millions of Canadian dollars)	2015	2014
CONSOLIDATED STATEMENTS OF OTHER COMPREHENSIVE INCOME (LOSS)		
Net income	$ 106.6	$ 89.5
Other comprehensive income (loss)		
Items that will not be recycled through net income:		
Defined benefit plan actuarial gains (losses) (Note 10)	7.6	(25.8)
Income tax recovery (expense) on defined benefit plan actuarial gains (losses) (Note 14)	(2.0)	6.7
Other comprehensive income (loss), net of tax	5.6	(19.1)
Total comprehensive income	$ 112.2	$ 70.4
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY		
Share capital		
Balance at beginning of year	$ 522.1	$ 523.4
Share purchases (Note 12)	(13.9)	(1.3)
Balance at end of year (Note 12)	$ 508.2	$ 522.1
Retained earnings (deficit)		
Balance at beginning of year	$ (32.5)	$ (85.4)
Net income	106.6	89.5
Defined benefit plan actuarial gains (losses), net of tax	5.6	(19.1)
Dividends declared	(96.5)	(16.8)
Share purchases (Note 12)	(11.7)	(0.7)
Balance at end of year	$ (28.5)	$ (32.5)
Total equity	$ 479.7	$ 489.6

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year ended December 31 (millions of Canadian dollars)	2015	2014
Cash generated from (used in):		
Operating activities		
Net income	$ 106.6	$ 89.5
Items not affecting cash:		
Amortization	65.2	62.7
Income tax expense	36.3	30.5
Changes in mark-to-market value of derivative financial instruments	(1.0)	0.8
Employee future benefits	5.5	4.6
Finance expense, net	6.0	5.5
Other, net	(0.4)	4.2
Defined benefit plan contributions, net	(3.9)	(6.1)
Income taxes paid, net	(36.0)	(24.4)
	178.3	167.3
Net change in non-cash working capital (Note 15)	(32.9)	(13.9)
	145.4	153.4
Financing activities		
Change in operating bank loans	-	(11.2)
Finance expenses paid	(2.7)	(2.7)
Dividends paid	(96.5)	(16.8)
Share purchases (Note 12)	(25.3)	(2.0)
	(124.5)	(32.7)
Investing activities		
Additions to property, plant and equipment, net	(68.3)	(57.7)
Acquisition of Taylor pulp mill (Note 21)	(12.6)	-
Other, net	0.7	0.3
	(80.2)	(57.4)
Increase (decrease) in cash and cash equivalents*	(59.3)	63.3
Cash and cash equivalents at beginning of year*	76.8	13.5
Cash and cash equivalents at end of year*	$ 17.5	$ 76.8

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2015 and 2014 (millions of Canadian dollars unless otherwise noted)

1. REPORTING ENTITY

Canfor Pulp Products Inc. ("CPPI") is a company incorporated and domiciled in Canada and listed on The Toronto Stock Exchange. The address of the Company's registered office is 100-1700 West 75th Avenue, Vancouver, British Columbia, Canada, V6P 6G2. The consolidated financial statements of the Company as at and for the year ended December 31, 2015 comprise the Company and its subsidiaries (together referred to as "CPPI" or "the Company"). 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 share purchases in 2015 (Note 12).

2. BASIS OF PREPARATION

STATEMENT OF COMPLIANCE

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The consolidated financial statements were authorized for issue by the Board of Directors on February 17, 2016.

BASIS OF MEASUREMENT

The consolidated financial statements have been prepared on the historical cost basis, except for the following material items:

- Financial instruments classified as fair value through profit and loss are measured at fair value;
- Asset retirement obligations are measured at the discounted value of expected future cash flows; and
- The retirement benefit surplus and obligation related to the defined benefit pension plans is the net of the accrued benefit obligation and the fair value of the plan assets.

USE OF ESTIMATES AND JUDGMENTS

The preparation of the consolidated financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The Company regularly reviews its estimates and assumptions; however, it is possible that circumstances may arise which cause actual results to differ from management estimates, and these differences could be material. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about the significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements is included in the applicable notes:

- Note 6 – Property, Plant and Equipment;
- Note 10 – Employee Future Benefits;
- Note 11 – Asset Retirement Obligations; and
- Note 14 – Income Taxes.

3. SIGNIFICANT ACCOUNTING POLICIES

The following accounting policies have been applied to the financial information presented.

BASIS OF CONSOLIDATION

Subsidiaries are entities controlled by the Company. Control exists when CPPI is able to govern the financial and operating activities of those other entities to generate returns for the Company. Inter-company transactions, balances and unrealized gains and losses on transactions between different entities within the Company are eliminated.

BUSINESS COMBINATIONS

Business combinations are accounted for using the acquisition method as at the acquisition date. CPPI measures goodwill at the acquisition date as the fair value of the consideration transferred including any non-controlling interest less the fair value of the identifiable assets acquired and liabilities assumed. When the excess is negative, a bargain purchase gain is recognized immediately in net income. Transaction costs in connection with business combinations are expensed as incurred.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash in bank accounts and highly liquid money market instruments with maturities of three months or less from the date of acquisition, and are valued at cost, which approximates market value. Cash is presented net of unpresented cheques. When the amount of unpresented cheques is greater than the amount of cash, the net amount is presented as cheques issued in excess of cash on hand. Interest is earned at variable rates dependent on amount, credit quality and term of the Company's deposits.

FINANCIAL INSTRUMENTS

NON-DERIVATIVE FINANCIAL INSTRUMENTS

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, loans and advances, and trade and other payables. Non-derivative financial instruments are recognized initially at fair value plus, for instruments not at fair value through net income, any directly attributable transaction costs. Subsequent to initial recognition, non-derivative financial instruments are measured as described below:

Financial assets at fair value through net income - An instrument is classified at fair value through net income if it is held for trading or is designated as such upon initial recognition. Financial instruments at fair value through net income are measured at fair value, and changes therein are recognized in the statements of income, with attributable transaction costs being recognized in net income when incurred.

Available for sale financial assets - Available for sale financial assets are non-derivatives that are either designated in this category or not classified in any other categories.

Loans and receivables - Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These are measured at amortized cost using the effective interest method, less any impairment losses. The effective interest method is used to spread the total costs of or income from a financial instrument over the life of the instrument. Financial assets included within this category for CPPI are trade and other receivables, and cash and cash equivalents.

Other liabilities - All of CPPI's financial liabilities are measured at amortized cost using the effective interest method.

DERIVATIVE FINANCIAL INSTRUMENTS

CPPI uses derivative financial instruments in the normal course of its operations as a means to manage its foreign exchange, interest rate, pulp price, and energy price risk. The Company's policy is not to utilize derivative financial instruments for trading or speculative purposes.

CPPI's derivative financial instruments are not designated as hedges for accounting purposes. Consequently, such derivatives for which hedge accounting is not applied are carried on the balance sheet at fair value, with changes in fair value (realized and unrealized) being recognized in the statements of income as 'Gain (loss) on derivative financial instruments'.

The fair value of the derivatives is determined with reference to period end market trading prices for derivatives with comparable characteristics.

INVENTORIES

Inventories include pulp, paper, wood chips, logs, and materials and supplies. These are measured 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.

PROPERTY, PLANT AND EQUIPMENT

Items of property, plant and equipment, including expenditure on major overhauls, are measured at cost less accumulated amortization and impairment losses.

Cost includes expenditures which are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, borrowing costs (as applicable), and any other costs directly attributable to bringing assets to be used in the manner intended by management.

Expenditure on major overhauls, refits or repairs is capitalized where it enhances the life or performance of an asset above its originally assessed standard of performance. Certain expenditures relating to replacement of components incurred during major maintenance are capitalized and amortized over the estimated benefit period of such expenditures. The costs of the day-to-day servicing of property, plant and equipment are recognized in net income as incurred.

The cost of replacing a major component of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to CPPI and its cost can be measured reliably. The carrying amount of the replaced component is removed.

Amortization is recognized in net income on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment, as set out in the table below. Land is not amortized. The significant majority of CPPI's amortization expense for property, plant and equipment relates to manufacturing and product costs.

Amortization methods, useful lives and residual values are reviewed, and adjusted if appropriate, at each reporting date. The following rates have been applied to CPPI's capital assets:

Buildings	10 to 40 years
Pulp and paper machinery and equipment	20 years
Mobile equipment	4 years
Office furniture and equipment	10 years
Major overhauls	1 to 2 years

GOVERNMENT ASSISTANCE

Government assistance relating to the acquisition of property, plant and equipment is recorded as a reduction of the cost of the asset to which it relates, with any amortization calculated on the net amount. Government grants related to income are recognized as income or a reimbursement of costs on a systematic basis over the periods necessary to match them with the related costs which they were intended to compensate.

ASSET IMPAIRMENT

CPPI's property, plant and equipment are reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognized in net income at the amount the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows that are largely independent of cash inflows from other assets or groups of assets (cash-generating units).

Non-financial assets, for which an impairment was recorded in a prior period are reviewed for possible reversal of the impairment at each reporting date. When an impairment loss is reversed, the increased carrying amount of the asset cannot exceed the carrying amount that would have been determined (net of amortization) had no impairment loss been recognized in prior years.

Financial assets are reviewed at each reporting date to determine whether there is evidence indicating they are impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative impact on estimated future cash flows from that asset. An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. All impairment losses are recognized in net income.

EMPLOYEE BENEFITS

DEFINED CONTRIBUTION PLANS

A defined contribution plan is a post-employment benefit plan under which an entity makes contributions to a separate entity and has no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense when they are earned.

For hourly employees covered by industry union defined contribution pension plans, the statements of income are charged with CPPI's contributions required under the collective agreements.

DEFINED BENEFIT PLANS

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. CPPI, in participation with Canfor, has defined benefit plans that provide both pension and other retirement benefits to most of its salaried employees and certain hourly employees not covered by forest industry union plans. The Company also provides certain health care benefits and pension bridging benefits to eligible retired employees.

The surplus and obligation recognized in the balance sheet in respect of a defined benefit pension plan is the net of the accrued benefit obligation and the fair value of the plan assets. The accrued benefit obligation, the related service cost and, where applicable, the past service cost is determined separately for each defined benefit pension plan based on actuarial determinations using the projected unit credit method. Under the projected unit credit method, the accrued benefit obligation is calculated as the present value of each member's prospective benefits earned in respect of credited service prior to the valuation date and the related service cost is calculated as the present value of the benefits the member is assumed to earn for credited service in the ensuing year. The actuarial assumptions used in these calculations, such as salary escalation and health care inflation, are based upon best estimates selected by CPPI. The discount rate assumptions are based on the yield at the reporting date on high quality corporate bonds that have maturity dates approximating the terms of CPPI's obligations.

Actuarial gains and losses can arise from differences between actual and expected outcomes or changes in the actuarial assumptions. Actuarial gains and losses, including the return on plan assets, are recognized in other comprehensive income on a quarterly basis and in the period in which they occur.

PROVISIONS

CPPI recognizes a provision if, as a result of a past event, it has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. The provision recorded is management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The expense arising from the unwinding of the discount due to the passage of time is recorded as a finance cost. The main class of provision recognized by CPPI is as follows:

ASSET RETIREMENT OBLIGATIONS

CPPI recognizes a liability for asset retirement obligations in the period in which they are incurred. The site restoration costs are capitalized as part of the cost of the related item of property, plant and equipment and amortized on a basis consistent with the expected useful life of the related asset. Asset retirement obligations are discounted at the risk-free rate in effect at the balance sheet date.

REVENUE RECOGNITION

CPPI's revenues are substantially derived from the sale of pulp, paper and energy. Revenue is measured at the fair value of the consideration received or receivable net of applicable sales taxes, returns, rebates and discounts and after eliminating sales within the Company. Revenue is recognized when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible returns of the goods can be estimated reliably, there is no continuing management involvement with the goods, and the amounts of revenue can be measured reliably. Energy revenue is recognized when CPPI has met the terms and conditions under both its electricity purchase and load displacement agreements.

Amounts charged to customers for shipping and handling are recognized as revenue, and shipping and handling costs incurred by CPPI are reported as a component of freight and other distribution costs.

INCOME TAXES

Income tax expense comprises current and deferred tax. Current and deferred tax are recognized in net income except to the extent that they relate to items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the period, using the tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous periods.

CPPI recognizes deferred income tax in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred income tax is measured at tax rates expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred income tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred income tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Investment tax credits are credited to manufacturing and product costs in the period in which it becomes reasonably assured that the Company is entitled to them. Unused investment tax credits are recorded as other current or long-term assets in the Company's balance sheet, depending upon when the benefit is expected to be received.

FOREIGN CURRENCY TRANSLATION

Items included in the financial statements of each of the Company's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency.

The majority of CPPI sales are denominated in foreign currencies, principally the US dollar. Transactions in foreign currencies are translated to the functional currencies of the respective entities at exchange rates on the dates of transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate on that date. Foreign currency differences arising on translation are recognized in net income.

The assets and liabilities of foreign operations are translated to the Canadian dollar at exchange rates on the reporting date. The income and expenses of foreign operations are translated to the Canadian dollar at exchange rates on the transaction dates. Foreign exchange differences are recognized in other comprehensive income.

SEGMENT REPORTING

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. Segment results reported to the chief operating decision-maker include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items mainly comprise interest bearing liabilities, head office expenses, and income tax assets and liabilities. Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment.

4. 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.

5. INVENTORIES

(millions of Canadian dollars)	As at December 31, 2015	As at December 31, 2014
Pulp	$ 71.2	$ 68.8
Paper	20.9	17.4
Wood chips and logs	21.9	12.1
Materials and supplies	49.8	45.4
	$ 163.8	$ 143.7

The above inventory balances are stated after inventory write-downs from cost to net realizable value. Write-downs at December 31, 2015 totaled $0.5 million (December 31, 2014 - nil). In 2015, costs of raw materials, consumables and changes in finished products recognized as manufacturing and product costs amounted to $422.1 million (2014 - $344.6 million).

6. PROPERTY, PLANT AND EQUIPMENT

(millions of Canadian dollars)	Land and improvements	Buildings, machinery and equipment	Asset retirement - landfill	Construction in progress	Major overhauls	Total
Cost						
Balance at January 1, 2014	$ 5.4	$ 1,458.0	$ 2.1	$ 15.5	$ 32.5	$ 1,513.5
Additions[1]	-	-	-	59.3	-	59.3
Disposals	-	(3.6)	-	-	(7.1)	(10.7)
Transfers	-	26.3	-	(35.4)	9.1	-
Balance at December 31, 2014	$ 5.4	$ 1,480.7	$ 2.1	$ 39.4	$ 34.5	$ 1,562.1
Additions[1]	-	0.3	0.9	68.8	-	70.0
Acquisitions (Note 21)	-	4.0	0.1	-	-	4.1
Disposals	-	(10.6)	-	-	(19.7)	(30.3)
Transfers	-	66.0	-	(92.1)	26.1	-
Balance at December 31, 2015	$ 5.4	$ 1,540.4	$ 3.1	$ 16.1	$ 40.9	$ 1,605.9
Amortization						
Balance at January 1, 2014	$ -	$ (973.5)	$ (1.0)	$ -	$ (10.9)	$ (985.4)
Amortization for the year	-	(47.7)	-	-	(15.0)	(62.7)
Disposals	-	3.0	-	-	7.1	10.1
Balance at December 31, 2014	$ -	$ (1,018.2)	$ (1.0)	$ -	$ (18.8)	$ (1,038.0)
Amortization for the year	-	(49.5)	(0.1)	-	(15.6)	(65.2)
Disposals	-	9.9	-	-	19.7	29.6
Balance at December 31, 2015	$ -	$ (1,057.8)	$ (1.1)	$ -	$ (14.7)	$ (1,073.6)
Carrying amounts						
At January 1, 2014	$ 5.4	$ 484.5	$ 1.1	$ 15.5	$ 21.6	$ 528.1
At December 31, 2014	$ 5.4	$ 462.5	$ 1.1	$ 39.4	$ 15.7	$ 524.1
At December 31, 2015	**$ 5.4**	**$ 482.6**	**$ 2.0**	**$ 16.1**	**$ 26.2**	**$ 532.3**

(1) Net of capital expenditures financed by government grants.

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

(millions of Canadian dollars)	As at December 31, 2015	As at December 31, 2014
Trade payables and accrued liabilities	$ 75.6	$ 59.6
Accrued payroll and related liabilities	37.5	29.9
Income tax payable	13.4	13.7
Other	17.7	20.0
	$ 144.2	$ 123.2

8. OPERATING LOANS

(millions of Canadian dollars)		As at December 31, 2015		As at December 31, 2014
Available Operating Loans:				
Operating loan facility	$	110.0	$	110.0
Facility for letters of credit		20.0		20.0
Total operating loan and credit facility		130.0		130.0
Operating loan drawn		-		-
Letters of credit		(13.0)		(12.2)
Total available operating loan and letters of credit facility	$	117.0	$	117.8

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

The Company has a separate facility to cover letters of credit. In 2015, the Company extended the maturity on this facility to June 30, 2016. At December 31, 2015, $9.4 million of letters of credit are covered under this facility with the balance of $3.6 million covered under the Company's general operating loan facility.

As at December 31, 2015, the Company is in compliance with all covenants relating to its operating loans.

9. LONG-TERM DEBT

CPPI has a $50.0 million unsecured non-revolving term loan, which is repayable on November 5, 2018 with no penalty for early repayment. The interest rate on the term loan is based on the lenders' Canadian prime rate or bankers acceptance rate in the year of payment. The term debt has certain financial covenants including a covenant based on maximum debt to total capitalization of the Company. In 2015, the minimum net worth financial covenant, which was based on shareholders' equity, was removed.

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.

As at December 31, 2015, the Company is in compliance with all covenants relating to its long-term debt.

FAIR VALUE OF TOTAL LONG-TERM DEBT

At December 31, 2015, the fair value of the Company's long-term debt approximates its amortized cost of $50.0 million (2014 - $50.0 million).

10. EMPLOYEE FUTURE BENEFITS

The Company, in participation with Canfor, has several funded and unfunded defined benefit pension plans, as well as defined contribution plans, that provide pension, other retirement and post-employment benefits to substantially all salaried employees and certain hourly employees. The defined benefit pension plans are based on years of service and final average salary. CPPI's other post-retirement benefit plans are non-contributory and include a range of health care and other benefits. Total cash payments for employee future benefits, net of withdrawals, for 2015 were $13.1 million (2014 - $14.1 million), consisting of cash contributed by CPPI to its funded pension plans, cash payments directly to beneficiaries for its unfunded other benefit plans, and cash contributed to its defined contribution plans.

DEFINED BENEFIT PLANS

CPPI measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at December 31 of each year.

CPPI has one registered defined benefit pension plan for which an actuarial valuation is performed every three years. The pension plan underwent an actuarial valuation for funding purposes as of December 31, 2013. The next actuarial valuation for funding purposes is currently scheduled for December 31, 2016. In addition, CPPI has a non-contributory plan that provides certain non-pension post-retirement benefits to its members. The non-contributory plan underwent an actuarial valuation for funding purposes in 2013, and is currently undergoing an actuarial valuation as at December 31, 2015, which will be completed later in 2016.

Information about CPPI's defined benefit plans, in aggregate, is as follows:

FAIR MARKET VALUE OF PLAN ASSETS

(millions of Canadian dollars)	2015 Pension Benefit Plans	2015 Other Benefit Plans	2014 Pension Benefit Plans	2014 Other Benefit Plans
Beginning of year	$ 108.9	$ -	$ 105.1	$ -
Interest income on plan assets	4.5	-	4.5	-
Return on plan assets greater than discount rate	2.4	-	3.9	-
Reallocation of assets in proportion to obligations	-	-	(3.9)	-
Employer contributions, net	2.0	1.8	4.6	1.5
Employee contributions	0.1	-	0.1	-
Taylor Pulp Transfer	6.9	-	-	-
Benefit payments	(5.7)	(1.8)	(5.1)	(1.5)
Administrative expenses	(0.1)	-	(0.3)	-
End of year	$ 119.0	$ -	$ 108.9	$ -

Plan assets consist of the following:	As at December 31, 2015	As at December 31, 2014
Asset category	Percentage of Plan Assets	
Equity securities	17%	16%
Debt securities	82%	83%
Cash and cash equivalents	1%	1%
	100%	100%

ACCRUED BENEFIT OBLIGATIONS

(millions of Canadian dollars)	2015 Pension Benefit Plans	2015 Other Benefit Plans	2014 Pension Benefit Plans	2014 Other Benefit Plans
Beginning of year	$ 125.9	$ 76.9	$ 107.6	$ 64.1
Current service cost	3.2	2.1	3.2	1.6
Interest cost	5.1	2.9	4.5	3.0
Employee contributions	0.1	-	0.1	-
Benefit payments	(5.7)	(1.8)	(5.1)	(1.5)
Actuarial loss (gain)	0.1	(5.2)	15.6	10.0
Taylor Pulp Transfer	7.2	-	-	-
Other	-	-	-	(0.3)
End of year	$ 135.9	$ 74.9	$ 125.9	$ 76.9

Of the defined benefit pension plan obligation of $135.9 million (2014 - $125.9 million), $121.4 million (2014 - $115.2 million) relates to plans that are wholly or partly funded, $14.5 million (2014 - $10.7 million) relates to plans that are wholly unfunded. At December 31, 2015, certain liabilities for pension benefit plans were secured by a letter of credit in the amount of $1.4 million (2014 - nil).

The total obligation for the other benefit plans of $74.9 million (2014 - $76.9 million) is unfunded.

RECONCILIATION OF FUNDED STATUS OF BENEFIT PLANS TO AMOUNTS RECORDED IN THE FINANCIAL STATEMENTS

(millions of Canadian dollars)	December 31, 2015 Pension Benefit Plans	December 31, 2015 Other Benefit Plans	December 31, 2014 Pension Benefit Plans	December 31, 2014 Other Benefit Plans
Fair market value of plans assets	$ 119.0	$ -	$ 108.9	$ -
Accrued benefit obligations	(135.9)	(74.9)	(125.9)	(76.9)
Funded status of plans – deficit	$ (16.9)	$ (74.9)	$ (17.0)	$ (76.9)
Other pension plans	(1.2)	-	(1.0)	-
Total accrued liability, net	$ (18.1)	$ (74.9)	$ (18.0)	$ (76.9)

COMPONENTS OF PENSION COST

The following table shows the before tax impact on net income and other comprehensive income of the Company's pension and other defined benefit plans:

	2015		2014	
(millions of Canadian dollars)	Pension Benefit Plans	Other Benefit Plans	Pension Benefit Plans	Other Benefit Plans
Recognized in net income				
Current service cost	$ 3.2	$ 2.1	$ 3.2	$ 1.6
Administration expense	0.2	-	0.1	-
Interest cost	0.6	2.9	-	3.0
Other	-	(0.1)	-	(0.3)
Total included in net income	$ 4.0	$ 4.9	$ 3.3	$ 4.3
Recognized in other comprehensive income				
Actuarial loss (gain) – experience	$ 3.4	$ 3.1	$ (2.0)	$ (0.2)
Actuarial loss – demographic assumptions	-	-	3.3	2.0
Actuarial loss (gain) – financial assumptions	(3.3)	(8.3)	14.3	8.2
Return on plan assets greater than discount rate	(2.4)	-	(3.9)	-
Administrative costs greater (less) than expected	(0.1)	-	0.2	-
Reallocation of assets in proportion to obligations	-	-	3.9	-
Total included in other comprehensive income	$ (2.4)	$ (5.2)	$ 15.8	$ 10.0

SIGNIFICANT ASSUMPTIONS

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).

SENSITIVITY ANALYSIS

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)

As at December 31, 2015, CPPI estimated that it will make contribution payments of $4.2 million to its defined benefit plans in 2016 based on the last actuarial valuation for funding purposes.

DEFINED CONTRIBUTION AND OTHER PLANS

The total expense recognized in 2015 for CPPI's defined contribution plans was $2.2 million (2014 - $1.3 million). CPPI contributes to a pulp industry pension plan providing pension benefits. This plan is accounted for as defined contribution plan. Contributions to this plan, not included in the expense for defined contribution plan above, amounted to $7.0 million in 2015 (2014 - $6.7 million).

11. ASSET RETIREMENT OBLIGATIONS

The following table provides a reconciliation of the asset retirement obligations as at December 31, 2015 and 2014:

(millions of Canadian dollars)	2015	2014
Asset retirement obligations at beginning of year	$ 3.5	$ 2.7
Accretion expense	0.1	0.1
Acquisitions (Note 21)	1.0	-
Changes in estimates	0.9	0.7
Asset retirement obligations at end of year	$ 5.5	$ 3.5

CPPI's asset retirement obligations represent estimated undiscounted future payments of $9.3 million to remediate landfills at the operations at the end of their useful lives. The payments 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% (2014 - 1.4% to 2.4%). The $0.9 million changes in estimates associated with the asset retirement obligation principally reflect a lower discount rate used in valuation of the obligation.

CPPI has certain assets that have indeterminable retirement dates and, therefore, there is an indeterminate settlement date for the related asset retirement obligations. As a result, no asset retirement obligations are recorded for these assets. These assets include wastewater and effluent ponds that will have to be drained once the related operating facility is closed and storage sites for which removal of chemicals, fuels and other related materials will be required once the related operating facility is closed. When the retirement dates of these assets become determinable and an estimate can be made, an asset retirement obligation will be recorded.

It is possible that changes in future conditions could require a material change in the recognized amount of the asset retirement obligations. The asset retirement obligations balance is included in other long-term provisions on the balance sheet.

12. SHARE CAPITAL

AUTHORIZED

Unlimited number of common shares, no par value

ISSUED AND FULLY PAID

	2015		2014	
(millions of Canadian dollars, except number of shares)	Number of Shares	Amount	Number of Shares	Amount
Common shares at beginning of year	70,829,823	$ 522.1	71,007,341	$ 523.4
Shares purchased	(1,877,951)	(13.9)	(177,518)	(1.3)
Common shares at end of year	68,951,872	$ 508.2	70,829,823	$ 522.1

The holders of common shares are entitled to vote at all meetings of shareholders of the Company and are entitled to receive dividends when declared.

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. The weighted average number of common shares outstanding for 2015 was 70,105,543 (2014 - 70,949,525), and reflected common shares purchased under the Company's Normal Course Issuer Bid.

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), of which $13.9 million was charged to share capital and $11.7 million was charged to retained earnings. Cash payments for share purchases totaled $25.3 million during the year with the balance of $0.3 million paid in early January 2016. As a result of the share purchases in 2015, Canfor's interest in CPPI increased from 50.5% at December 31, 2014 to 51.9% at December 31, 2015.

In 2014, under a previous normal course issuer bid, CPPI purchased 177,518 common shares for $2.0 million (an average price of $11.27 per common share), of which $1.3 million was charged to share capital and $0.7 million was charged to retained earnings.

13. FINANCE EXPENSE, NET

(millions of Canadian dollars)	2015	2014
Interest expense on borrowings	$ (3.0)	$ (2.7)
Interest expense on retirement benefit obligations, net	(3.5)	(3.0)
Interest income	0.7	0.3
Other	(0.2)	(0.1)
Finance expense, net	$ (6.0)	$ (5.5)

For the year ended December 31, 2015, finance expense, net interest expense on retirement benefit obligations and interest related substantially to interest expense on term debt, net expense related to the Company's operating loan facility.

14. INCOME TAXES

The components of income tax expense are as follows:

(millions of Canadian dollars)	2015	2014
Current	$ (35.6)	$ (31.0)
Deferred	(0.7)	0.5
Income tax expense	$ (36.3)	$ (30.5)

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
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)

In addition to the amounts recorded to net income, a tax expense of $2.0 million was recorded to other comprehensive income for the year ended December 31, 2015 (2014 - $6.7 million recovery) in relation to actuarial gains/losses on defined benefit employee compensation plans.

The tax effects of the significant components of temporary differences that give rise to deferred income tax assets and liabilities are as follows:

(millions of Canadian dollars)	As at December 31, 2015	As at December 31, 2014
Deferred income tax assets		
Retirement benefit obligations	$ 23.9	$ 24.6
Other	2.1	1.8
	$ 26.0	$ 26.4
Deferred income tax liabilities		
Depreciable capital assets	$ (93.9)	$ (91.9)
Other	(0.3)	-
	(94.2)	(91.9)
Total deferred income taxes, net	$ (68.2)	$ (65.5)

15. NET CHANGE IN NON-CASH WORKING CAPITAL

(millions of Canadian dollars)	2015	2014
Accounts receivable	$ (49.7)	$ 11.5
Inventories	(4.8)	(15.6)
Prepaid expenses and other assets	4.4	(5.6)
Accounts payable and accrued liabilities	17.2	(4.2)
Net increase in non-cash working capital	$ (32.9)	$ (13.9)

16. RELATED PARTY TRANSACTIONS

In 2015, the Company depended on Canfor to provide approximately 64% (2014 - 59%) of its fibre supply as well as to provide certain key business and administrative services as described below. As a result of these relationships, the Company considers its operations to be dependent on its ongoing relationship with Canfor. 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.

CPPI 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 Company purchased wood chips, logs and hog fuel from Canfor sawmills in the amount of $182.2 million in 2015 (2014 - $147.5 million).

Canfor provides certain business and administrative services to CPPI under a services agreement. The total cost of the services provided by Canfor in 2015 was $11.5 million (2014 - $10.6 million). These amounts are included in manufacturing and product costs and selling and administration costs.

CPPI provides certain business and administrative services to Canfor under an incidental services agreement. The total cost of the services provided to Canfor in 2015 was $3.6 million (2014 - $2.8 million). These amounts are included as a cost recovery in manufacturing and product costs and selling and administration costs.

The Company has a demand loan agreement with Canfor whereby each party may borrow funds from the other party at its discretion. As part of the agreement, the demand loan maturity may not exceed three months, and interest expense is calculated based on the difference between the borrower's annualized borrowing rate and the average return on highly-rated short-term investments. At December 31, 2015, no amounts are outstanding on the demand loan.

In 2015, CPPI purchased wood chips from Lakeland Mills Ltd. ("Lakeland"). Canfor had a 33% interest in Lakeland up until the sale of its investment on July 1, 2015. Prior to the sale, CPPI purchased $1.1 million in wood chips from Lakeland (2014 - nil).

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

KEY MANAGEMENT PERSONNEL

Key management includes members of the Board of Directors and the Senior Executive management team. The compensation expense for key management for services is as follows:

(millions of Canadian dollars)	2015	2014
Short-term benefits	$ 3.4	$ 3.4
Post-employment benefits	0.1	0.2
Termination benefits	0.5	-
	$ 4.0	$ 3.6

Short-term benefits for most members of the Board of Directors include an annual retainer as well as attendance fees.

OTHER RELATED PARTIES

During the year, CPPI made contributions to certain post-employment benefit plans for the benefit of CPPI employees. Note 10 Employee Future Benefits contains further details.

17. SEGMENT INFORMATION

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

Sales between 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.

Information regarding the operations of each reportable segment is included in the following table. The accounting policies of the reportable segments are the same as described in Note 3.

The Company's interest-bearing liabilities are not considered to be segment liabilities but rather are managed centrally by the treasury function. Other liabilities are not split by segment for the purposes of allocating resources and assessing performance.

(millions of Canadian dollars)		Pulp	Paper	Unallocated	Elimination Adjustment		Total
Year ended December 31, 2015							
Sales to external customers	**$**	**1,006.1**	**166.7**	**1.9**	**-**	**$**	**1,174.7**
Sales to other segments	**$**	**93.4**	**-**	**-**	**(93.4)**	**$**	**-**
Operating income (loss)	**$**	**127.0**	**27.6**	**(11.4)**	**-**	**$**	**143.2**
Amortization	**$**	**61.5**	**3.6**	**0.1**	**-**	**$**	**65.2**
Capital expenditures[2]	**$**	**62.5**	**5.8**	**-**	**-**	**$**	**68.3**
Identifiable assets	**$**	**746.4**	**64.0**	**30.9**	**-**	**$**	**841.3**
Year ended December 31, 2014							
Sales to external customers	$	816.4	162.8	1.3	-	$	980.5
Sales to other segments	$	93.8	-	-	(93.8)	$	-
Operating income (loss)	$	115.0	22.0	(11.6)	-	$	125.4
Amortization	$	59.2	3.4	0.1	-	$	62.7
Capital expenditures[2]	$	56.2	1.1	0.4	-	$	57.7
Identifiable assets	$	677.9	57.6	91.9	-	$	827.4

(2) 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 year ended December 31, 2015 exclude the assets purchased as part of the acquisition of the Taylor pulp mill (Note 21).

GEOGRAPHIC INFORMATION

CPPI's products are marketed worldwide, with sales made to customers in a number of different countries. In presenting information on the basis of geographical location, revenue is based on the geographical location of customers.

(millions of Canadian dollars)		2015		2014
Sales by location of customer				
Canada	**$**	**78.8**	$	54.8
United States		**356.1**		301.0
Europe		**74.3**		86.3
Asia		**631.9**		492.5
Other		**33.6**		45.9
	$	**1,174.7**	$	980.5

18. COMMITMENTS

At the end of the year, CPPI has contractual commitments for the construction of capital assets for $1.8 million (2014 - $0.6 million). These commitments are expected to be settled over the following year.

CPPI has committed to operating leases for property, plant and equipment. As at December 31, 2015 and 2014, the future minimum lease payments under these operating leases were as follows:

(millions of Canadian dollars)		As at December 31, 2015		As at December 31, 2014
Within one year	**$**	**0.4**	$	0.8
Between one and five years		**0.4**		0.3
Total	**$**	**0.8**	$	1.1

During the year ended December 31, 2015, $2.3 million (2014 - $2.9 million) was recognized as an expense in the income statement in respect to operating leases.

ENERGY AGREEMENTS

The Company has entered into 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, CPPI has $11.6 million of standby letters of credit (2014 - $12.2 million) under these agreements, and has no repayment obligations under the terms of any of these agreements.

19. FINANCIAL RISK AND CAPITAL MANAGEMENT

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.

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. The cash and cash equivalents balance at December 31, 2015 is $17.5 million (2014 - $76.8 million).

CPPI utilizes credit insurance to manage the risk associated with trade receivables. As at December 31, 2015, approximately 78% (2014 - 81%) 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 is $101.8 million (2014 - $60.7 million). At December 31, 2015, approximately 99% (2014 - 98%) of the trade accounts receivable balance are within CPPI's established credit terms.

LIQUIDITY RISK:

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

At December 31, 2015, CPPI has no amounts drawn (2014 - no amounts drawn) on its operating loans and accounts payable and accrued liabilities of $144.2 million (2014 - $123.2 million), all of which are due within twelve months of the balance sheet date.

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 utilizes interest rate swaps to reduce its exposure to financial obligations bearing variable interest rates. At December 31, 2015, CPPI has no fixed interest rate swaps outstanding (2014 - $35.0 million).

(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.

An increase (decrease) in the value of the Canadian dollar by US$0.01 would result in a pre-tax loss (gain) of approximately $1.3 million in relation to working capital balances denominated in US dollars at year end (including cash, accounts receivable and accounts payable).

A portion of the currency risk associated with US dollar denominated sales is naturally offset by US dollar denominated expenses. A portion of the remaining exposure is covered by foreign exchange collar contracts that effectively limit the minimum and maximum Canadian dollar recovery related to the sale of those US dollars.

CPPI had the following foreign exchange derivatives at December 31, 2015 and 2014:

	As at December 31, 2015		As at December 31, 2014	
	Notional Amount	Exchange Rates	Notional Amount	Exchange Rates
US Dollar Collars	(millions of US dollars)	(protection/ topside per dollar)	(millions of US dollars)	(protection/ topside per dollar)
0-12 months	$ -	$ -	$ 104.0	$1.11/$1.22

(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.

From time to time, CPPI enters into futures contracts on commodity exchanges for pulp. Under the Price Risk Management Controls Policy up to 1% of pulp sales may be sold in this way.

CPPI had no pulp futures contracts outstanding at December 31, 2015 and 2014.

(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 Western Texas Intermediate oil ("WTI") contracts to hedge its exposure.

As at December 31, 2015, the Company has no WTI oil collars outstanding. As at December 31, 2014, the Company had 102 thousand barrels of WTI oil collars outstanding.

CAPITAL MANAGEMENT

CPPI's objectives when managing capital are to maintain a strong balance sheet and a globally competitive cost structure, that ensure adequate liquidity to maintain and develop the business through the commodity price cycle.

CPPI's capital is comprised of net debt and shareholders' equity:

(millions of Canadian dollars)	As at December 31, 2015	As at December 31, 2014
Total debt (including operating loans)	$ 50.0	$ 50.0
Less: Cash and cash equivalents	17.5	76.8
Net debt (cash)	$ 32.5	$ (26.8)
Total equity	479.7	489.6
	$ 512.2	$ 462.8

The Company has certain financial covenants in its debt obligations including a maximum debt to total capitalization ratio which is calculated by dividing total debt by shareholders' equity plus total debt.

CPPI's strategy is to ensure it remains in compliance with all of its existing debt covenants, so as to ensure continuous access to capital. CPPI was in compliance with all its debt covenants for the years ended December 31, 2015 and 2014.

The Company manages its capital structure through rigorous planning, budgeting and forecasting processes, and ongoing management of operations, investments and capital expenditures. In 2015, to meet CPPI's operating, growth and return on invested capital objectives, the Company's management of capital comprised share purchases and dividends, strategic acquisitions, investment in the Company's operations, development of energy-related assets, and sustainable working capital reduction initiatives. Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

20. 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.

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

The three levels of the fair value hierarchy are:

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

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

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

The Company uses a variety of derivative financial instruments to reduce its exposure to risks associated with fluctuations in foreign exchange rates, pulp prices, energy costs and interest rates. During 2015, the Company settled all of its derivative financial instruments and none are outstanding as at December 31, 2015 (2014 - net liability of $1.0 million).

The following table summarizes the losses on the Company's level 2 derivative financial instruments for the years ended December 31, 2015 and 2014:

The following table summarizes the losses on the Company's level 2 derivative financial instruments for the years ended December 31, 2015 and 2014:

(millions of Canadian dollars)		**2015**		2014
Foreign exchange collars	$	**(8.3)**	$	(0.3)
Crude oil collars		**(0.4)**		(0.7)
Interest rate swaps		**(0.1)**		(0.1)
Pulp futures		**-**		(0.8)
Loss on derivative financial instruments	$	**(8.8)**	$	(1.9)

There were no financial instrument transfers between fair value hierarchy levels during 2015 or 2014.

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

If the acquisition had occurred on January 1, 2015, CPPI's consolidated sales for the 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.

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 is nil at December 31, 2015.

22. SPECIAL DIVIDEND

On August 10, 2015, the Company paid a special dividend of $79.0 million ($1.1250 per share) to the shareholders of the Company. The special dividend was paid as a result of strong cash generated by the business in 2014 and 2015.

23. SUBSEQUENT EVENT

On February 17, 2016, the Board of Directors declared a quarterly dividend of $0.0625 per share, payable on March 8, 2016, to shareholders of record on March 1, 2016.

ADDITIONAL INFORMATION

SUMMARY OF CONSOLIDATED PRODUCTION AND SHIPMENTS

(unaudited)

PRODUCTION

2015	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Year
Pulp – 000 mt	287.8	294.6	310.5	322.5	1,215.4
Paper – 000 mt	35.4	31.0	34.6	35.8	136.8

2014	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Year
Pulp – 000 mt	258.7	237.7	248.1	241.1	985.6
Paper – 000 mt	36.7	35.4	35.9	36.0	144.0

SHIPMENTS

2015	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Year
Pulp – 000 mt	272.1	291.9	307.4	356.2	1,227.6
Paper – 000 mt	32.1	33.8	32.1	35.4	133.4

2014	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Year
Pulp – 000 mt	222.4	246.9	240.5	258.6	968.4
Paper – 000 mt	31.3	39.7	35.7	35.8	142.5

2015 SELECTED QUARTERLY FINANCIAL INFORMATION

(unaudited)	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Year
Sales and income (millions of Canadian dollars)					
Sales	$ 273.8	$ 276.0	$ 294.1	$ 330.8	$ 1,174.7
Manufacturing and product costs	171.1	191.5	186.2	220.5	769.3
Freight and other distribution costs	38.1	41.5	42.4	47.0	169.0
Amortization	15.7	15.5	16.4	17.6	65.2
Selling and administration costs	7.5	6.6	6.8	7.1	28.0
Operating income	41.4	20.9	42.3	38.6	143.2
Finance expense, net	(1.3)	(1.3)	(1.7)	(1.7)	(6.0)
Gain (loss) on derivative financial instruments	(9.4)	4.6	(4.9)	0.9	(8.8)
Other income (expense), net	7.0	(0.6)	6.2	1.9	14.5
Net income before income taxes	37.7	23.6	41.9	39.7	142.9
Income tax expense	(9.7)	(5.9)	(10.7)	(10.0)	(36.3)
Net income	$ 28.0	$ 17.7	$ 31.2	$ 29.7	$ 106.6
Net income attributable to:					
Equity shareholders of the Company	$ 28.0	$ 17.7	$ 31.2	$ 29.7	$ 106.6
Net income per common share: (Canadian dollars)					
Attributable to equity shareholders of the Company					
- Basic and diluted	$ 0.40	$ 0.25	$ 0.45	$ 0.43	$ 1.52
Cash generated from (used in) (millions of Canadian dollars)					
Operating activities	$ 39.6	$ 30.5	$ 32.2	$ 43.1	$ 145.4
Financing activities					
Dividend paid	(4.4)	(4.4)	(83.3)	(4.4)	(96.5)
Share purchases	(1.7)	(7.3)	(6.7)	(9.6)	(25.3)
Other	(0.5)	(0.6)	(0.9)	(0.7)	(2.7)
	(6.6)	(12.3)	(90.9)	(14.7)	(124.5)
Investing activities					
Property, plant and equipment, net	(13.4)	(12.8)	(14.5)	(27.6)	(68.3)
Acquisition of Taylor Pulp Mill	(12.6)	-	-	-	(12.6)
Other, net	0.2	0.3	0.1	0.1	0.7
	(25.8)	(12.5)	(14.4)	(27.5)	(80.2)
Increase (decrease) in cash and cash equivalents	$ 7.2	$ 5.7	$ (73.1)	$ 0.9	$ (59.3)

2014 SELECTED QUARTERLY FINANCIAL INFORMATION

(unaudited)	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Year
Sales and income (millions of Canadian dollars)					
Sales	$ 226.4	$ 252.5	$ 237.6	$ 264.0	$ 980.5
Manufacturing and product costs	138.5	166.4	151.3	179.3	635.5
Freight and other distribution costs	28.9	33.9	32.0	34.3	129.1
Amortization	16.0	15.2	16.3	15.2	62.7
Selling and administration costs	6.6	7.4	6.6	7.2	27.8
Operating income	36.4	29.6	31.4	28.0	125.4
Finance expense, net	(1.5)	(1.3)	(1.3)	(1.4)	(5.5)
Gain (loss) on derivative financial instruments	(1.4)	0.6	(0.3)	(0.8)	(1.9)
Other income (expense), net	0.9	(3.7)	3.0	1.8	2.0
Net income before income taxes	34.4	25.2	32.8	27.6	120.0
Income tax expense	(8.7)	(6.4)	(8.5)	(6.9)	(30.5)
Net income	$ 25.7	$ 18.8	$ 24.3	$ 20.7	$ 89.5
Net income attributable to:					
Equity shareholders of the Company	$ 25.7	$ 18.8	$ 24.3	$ 20.7	$ 89.5
Net income per common share: (Canadian dollars)					
Attributable to equity shareholders of the Company					
- Basic and diluted	$ 0.36	$ 0.27	$ 0.34	$ 0.29	$ 1.26
Cash generated from (used in) (millions of Canadian dollars)					
Operating activities	$ 23.9	$ 51.6	$ 24.7	$ 53.2	$ 153.4
Financing activities					
Dividend paid	(3.5)	(4.5)	(4.4)	(4.4)	(16.8)
Share purchases	-	-	(2.0)	-	(2.0)
Other	(7.0)	(5.6)	(0.6)	(0.7)	(13.9)
	(10.5)	(10.1)	(7.0)	(5.1)	(32.7)
Investing activities					
Property, plant, equipment, net	(10.0)	(20.2)	(16.2)	(11.3)	(57.7)
Other	-	-	0.1	0.2	0.3
	(10.0)	(20.2)	(16.1)	(11.1)	(57.4)
Increase in cash and cash equivalents	$ 3.4	$ 21.3	$ 1.6	$ 37.0	$ 63.3

DIRECTORS AND OFFICERS

DIRECTORS

The names, principal occupation and municipalities of residence of the Directors of the Company as at December 31, 2015 are as below. For more information visit www.canfor.com

Peter J.G. Bentley, O.C., O.B.C., LL.D. (2)(3)(4)(5)
Chairman Emeritus
Canfor Corporation
Vancouver, British Columbia

Stan E. Bracken-Horrocks, FCPA, FCA (1)(3)(5)
Corporate Director
Kelowna, British Columbia

David M. Calabrigo, Q.C.
Senior Vice President, Corporate Development, Legal Affairs and Corporate Secretary
Canfor Corporation
Vancouver, British Columbia

Charles J. Jago, PhD, C.M., O.B.C. (2)(4)
Corporate Director
Prince George, British Columbia

Michael J. Korenberg (1)(3)(5)
Chairman
Canfor Pulp Products Inc.
West Vancouver, British Columbia

Conrad A. Pinette (2)(4)(5)
Corporate Director
Vancouver, British Columbia

William W. Stinson (1)(2)(4)(5)
Chairman and Chief Executive Officer
Westshore Terminals Investment Corp.
Vancouver, British Columbia

OFFICERS

The names and municipalities of residence of the officers of the Company and the offices held by each of them as at December 31, 2015 are as below. For more information visit www.canfor.com

Michael J. Korenberg
Chairman
West Vancouver, British Columbia

Donald B. Kayne
Chief Executive Officer
Tsawwassen, British Columbia

Brett R. Robinson
President
Tsawwassen, British Columbia

Alan R. Nicholl
Chief Financial Officer
West Vancouver, British Columbia

David M. Calabrigo, Q.C.
Corporate Secretary
Vancouver, British Columbia

Martin Pudlas
Vice President, Operations
Prince George, British Columbia

Peter Hart
Vice President, Pulp and Paper Sales and Marketing
Vancouver, British Columbia

(1) Member of the Audit Committee, which reviews the Company's financial statements, the scope and results of the external auditor's work, the adequacy of internal accounting and audit programs and compliance with accounting and reporting standards.
(2) Member of the Joint Management Resources and Compensation Committee, which oversees compensation policies approved by the Board and to make recommendations to the Board regarding executive compensation.
(3) Member of the Joint Corporate Governance Committee, which ensures that the Company through its Board of Directors sustains an effective approach to corporate governance.
(4) Member of the Joint Environmental, Health and Safety Committee, which develops, reviews and makes recommendations on matters related to the Company's environmental, health and safety policies, and monitors compliance with those policies and with government regulation.
(5) Member of the Joint Capital Expenditure Committee, which reviews proposed capital expenditures.

The term of office of each Director expires on the date of the next Annual General Meeting of the Company.

MAP OF OPERATIONS

PRINCE GEORGE

WESTERN CANADA

PULP & PAPER

Intercontinental Pulp Mill, BC 1
Northwood Pulp Mill, BC 2
Prince George Pulp and Paper Mill, BC . 3
Taylor Pulp Mill, BC. 4
Canfor Pulp Innovation, BC 5

CANFOR PULP INNOVATION

Canfor Pulp Innovation ("CPI") was established and charged with a "search and apply" mandate for technology which determined that we adopt an Open Innovation approach to Canfor Pulp's R&D investment. Located in a purpose built facility in Burnaby, CPI is unique in Canada, right-sized and ultra-responsive to Canfor Pulp's customers and mills.

CPI operates under 4 strategic themes; cost reduction, strength & quality, tissue, and new products. Delivering an annual program comprising of approximately twenty projects, CPI's Open Innovation delivery model comprises of 4 levels: CPI staff; contracted industry leading expertise; and partnerships and technical contracts.

Sponsored research with an international suite of collaborators is now delivering new opportunities from our growing intellectual property portfolio. CPI is delivering opportunities for continuous customer and mill improvements contributed to ensuring that Canfor Pulp remains a global quality and technology leader in NBSK.

DEFINITIONS AND INFORMATION

MILL OPERATIONS

	2015 Production	Capacity
Pulp (000 tonnes)	1,215	1,285
Paper (000 tonnes)	137	140

CORPORATE AND SHAREHOLDER INFORMATION

Annual General Meeting
The Annual General Meeting of Canfor Pulp Products Inc. will be held at the Prince George Playhouse at 2833 Recreation Place, Prince George, BC, on Wednesday, April 27th, 2016 at 11:00 am.

Auditors
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Vancouver, BC

Transfer Agent and Registrar
CST Trust Company
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Stock Listing
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Symbol: CFX

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CPPI also produces an Annual Information Form. To obtain this publication or more information about the company, please contact Canfor Pulp Products Inc., Public Affairs or visit our website at http://canfor.com/investor-relations

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DEFINITIONS OF SELECTED FINANCIAL TERMS

Book Value per Common Share is the shareholders' equity at the end of the year, divided by the number of common shares outstanding at the end of the year.

Net Debt is total debt less cash and cash equivalents and temporary investments.

Net Income (Loss) per Common Share is calculated as described in Note 12 to the Consolidated Financial Statements.

Return on Invested Capital 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.

Working Capital is total current assets (including cash and cash equivalents) less total current liabilities.


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