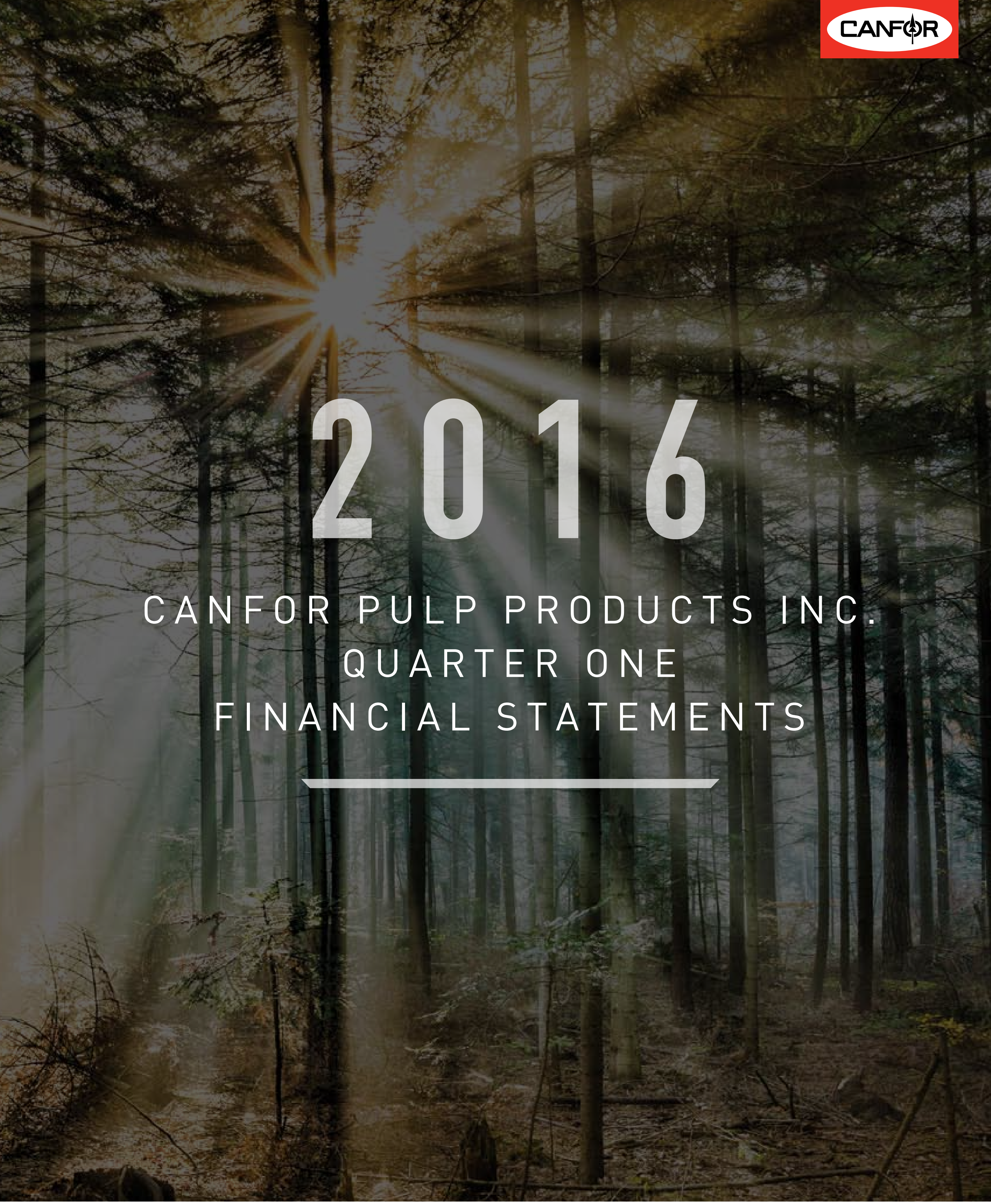

2016

CANFOR PULP PRODUCTS INC.
QUARTER ONE
FINANCIAL STATEMENTS

Canfor Pulp Products Inc.
Condensed Consolidated Balance Sheets

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

Subsequent Event (Note 12)

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

APPROVED BY THE BOARD

"S.E. Bracken-Horrocks"

Director, S.E. Bracken-Horrocks

"M.J. Korenberg"

Director, M.J. Korenberg

Canfor Pulp Products Inc.
Condensed Consolidated Statements of Income

(millions of Canadian dollars, except per share data, unaudited)	3 months ended March 31, 2016	2015
Sales	**$ 295.3**	$ 273.8
Costs and expenses		
Manufacturing and product costs	**187.8**	171.1
Freight and other distribution costs	**42.5**	38.1
Amortization	**18.7**	15.7
Selling and administration costs	**7.2**	7.5
	256.2	232.4
Operating income	**39.1**	41.4
Finance expense, net	**(1.6)**	(1.3)
Loss on derivative financial instruments (Note 5)	**-**	(9.4)
Foreign exchange gain (loss) on working capital and other income (expense), net	**(6.6)**	7.0
Net income before income taxes	**30.9**	37.7
Income tax expense (Note 6)	**(7.8)**	(9.7)
Net income	**$ 23.1**	$ 28.0
Net income per common share: (in Canadian dollars)		
Attributable to equity shareholders of the Company		
- Basic and diluted (Note 7)	**$ 0.34**	$ 0.40

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

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

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

Condensed Consolidated Statements of Changes in Equity

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

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

Canfor Pulp Products Inc.
Condensed Consolidated Statements of Cash Flows

(millions of Canadian dollars, unaudited)	3 months ended March 31, 2016	2015
Cash generated from (used in):		
Operating activities		
Net income	**$ 23.1**	$ 28.0
Items not affecting cash:		
Amortization	**18.7**	15.7
Income tax expense	**7.8**	9.7
Changes in mark-to-market value of derivative financial instruments	**-**	7.0
Employee future benefits	**1.3**	1.4
Finance expense, net	**1.6**	1.3
Other, net	**1.4**	(1.1)
Defined benefit pension plan contributions, net	**(1.2)**	(0.4)
Income taxes paid, net	**(11.6)**	(12.5)
	41.1	49.1
Net change in non-cash working capital (Note 8)	**(12.8)**	(9.5)
	28.3	39.6
Financing activities		
Finance expenses paid	**(0.8)**	(0.5)
Dividends paid	**(4.3)**	(4.4)
Share purchases (Note 7)	**(5.0)**	(1.7)
	(10.1)	(6.6)
Investing activities		
Additions to property, plant and equipment, net	**(13.1)**	(13.4)
Acquisition of Taylor pulp mill (Note 11)	**-**	(12.6)
Other, net	**0.2**	0.2
	(12.9)	(25.8)
Increase in cash and cash equivalents*	**5.3**	7.2
Cash and cash equivalents at beginning of period*	**17.5**	76.8
Cash and cash equivalents at end of period*	**$ 22.8**	$ 84.0

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

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

Canfor Pulp Products Inc.
Notes to the Condensed Consolidated Financial Statements
Three months ended March 31, 2016 and 2015
(unaudited, millions of Canadian dollars unless otherwise noted)

1. Basis of Preparation

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

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

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

Accounting Standards Issued and Not Applied

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

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

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

2. Inventories

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

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

3. Operating Loans

Available Operating Loans

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

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

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

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

4. Employee Future Benefits

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

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

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

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

5. Financial Instruments

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

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

The three levels of the fair value hierarchy are:

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

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

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

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

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

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

6. Income Taxes

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

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

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

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

7. Earnings per Share and Normal Course Issuer Bid

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

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

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

8. Net Change in Non-Cash Working Capital

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

9. Segment Information

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

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

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

[1]Capital expenditures represent cash paid for capital assets during the periods and include capital expenditures that were partially financed by government grants. Capital expenditures for the three months ended March 31, 2015 exclude the assets purchased as part of the acquisition of the Taylor pulp mill (Note 11).

10. Related Party Transactions

During the first quarter of 2016, the Company depended on Canfor to provide approximately 64% (three months ended March 31, 2015 - 61%) of its fibre supply as well as certain key business and administrative services. As a result of these relationships the Company considers its operations to be dependent on its ongoing relationship with Canfor. The transactions with Canfor are consistent with the transactions described in the December 31, 2015 audited consolidated financial statements of CPPI and are based on agreed upon amounts between the parties.

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

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

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

11. Purchase of Taylor Pulp Mill

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

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

Subsequent to the acquisition date, in 2015, CPPI reversed the $1.8 million contingent consideration provision resulting in a gain recorded to Other Income to reflect lower forecast Bleached Chemi-Thermo Mechanical Pulp prices over the contingent consideration period. The fair value of the contingent consideration provision was nil at March 31, 2016.

12. Subsequent Event

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