

2015

CANFOR PULP PRODUCTS INC.
QUARTER ONE
INTERIM REPORT

FOR THE THREE MONTHS ENDED MAR 31, 2015

CANFOR



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To Our Shareholders

Canfor Pulp Products Inc. ("CPPI") reported net income of \$28.0 million, or \$0.40 per share, for the first quarter of 2015, compared to \$20.7 million, or \$0.29 per share, for the fourth quarter of 2014 and \$25.7 million, or \$0.36 per share, for the first quarter of 2014.

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

(millions of Canadian dollars, except per share amounts)	Q1 2015	Q4 2014	Q1 2014
Sales	\$ 273.8	\$ 264.0	\$ 226.4
Operating income before amortization	\$ 57.1	\$ 43.2	\$ 52.4
Operating income	\$ 41.4	\$ 28.0	\$ 36.4
Net income	\$ 28.0	\$ 20.7	\$ 25.7
Net income per share, basic and diluted	\$ 0.40	\$ 0.29	\$ 0.36
Adjusted net income	\$ 33.3	\$ 21.3	\$ 26.7
Adjust net income per share, basic and diluted	\$ 0.47	\$ 0.30	\$ 0.37

After adjusting for items affecting comparability with the prior periods, the Company's adjusted net income for the first quarter of 2015 was \$33.3 million, or \$0.47 per share, compared to an adjusted net income of \$21.3 million, or \$0.30 per share, for the fourth quarter of 2014. CPPI's adjusted net income for the first quarter of 2014 was \$26.7 million, or \$0.37 per share.

The Company reported operating income of \$41.4 million for the first quarter of 2015, an increase of \$13.4 million from \$28.0 million reported for the fourth quarter of 2014. The improvement in operating income compared to the previous quarter principally reflected increased unit sales realizations for both the pulp and paper segments, driven by a significantly weaker Canadian dollar, which more than offset lower US dollar prices, and reduced pulp unit manufacturing costs primarily attributable to the impact of the scheduled maintenance outage in the pulp segment in the fourth quarter of 2014. The Company's results for the current quarter also included the recently acquired Taylor Bleached Chemi-Thermo Mechanical Pulp ("BCTMP") Mill, purchased from Canfor on January 30, 2015.

Softwood pulp markets weakened somewhat in the first quarter of 2015, for the most part reflecting strong industry operating rates and increased inventory levels in the marketplace. Reflecting the global softwood pulp market conditions, average list prices for Northern Bleached Softwood Kraft ("NBSK") pulp, as published by RISI, were down in all regions, with the North American average NBSK pulp list price declining US\$30 per tonne, or 3%, to US\$995 and the list price to China seeing a larger decline, down US\$52 per tonne, or 7%. Despite this, the Company's NBSK pulp sales realizations showed a modest increase from the prior quarter, largely as a result of the sharp deterioration of the Canadian dollar (down 9%) and increased shipments to higher-margin regions in the current quarter.

Pulp shipments increased 5% from the previous quarter, reflecting additional shipments from the recently acquired Taylor Pulp Mill. Total NBSK pulp shipments were down moderately quarter-over-quarter, with increased demand from North America more than offset by reduced shipments to Asia, in part reflecting the traditional Chinese Lunar New Year holiday. Pulp production levels were up 19%, reflecting both the contribution of the Taylor Pulp Mill as well as increased NBSK pulp production following the scheduled maintenance outage at the Northwood Pulp Mill in the previous quarter. Pulp unit manufacturing costs in the first quarter of 2015 were down moderately compared to the fourth quarter of 2014, principally attributable to the maintenance outage in the previous quarter.

The Company's paper segment results were up slightly from the previous quarter, with improved unit sales realizations, resulting principally from the weaker Canadian dollar, partially offset by lower shipments and marginally higher unit manufacturing costs, the latter reflecting market-driven increases in slush pulp costs. Paper production was in line with the previous quarter.

As previously mentioned, on January 30, 2015, CPPI completed the purchase of the Taylor Pulp Mill from Canfor for cash consideration of \$12.6 million, including final working capital. In addition to the cash consideration paid on the acquisition date, CPPI may also pay contingent consideration to Canfor over a 3 year period, starting January 31, 2015, based on the Taylor Pulp Mill's annual adjusted operating income before amortization.

NBSK pulp markets are projected to stabilize somewhat during the industry's annual spring maintenance period in the second quarter of 2015. For the months of April and May 2015, the Company announced NBSK pulp list prices of US\$980 per tonne in North America, unchanged from March 2015, and list price increases to China of US\$10 per tonne for the month of April 2015, and a further US\$20 per tonne for May 2015. Maintenance outages are planned at the Intercontinental and Prince George Mills in the second quarter of 2015, with a projected 10,000 tonnes of reduced NBSK pulp production. The Taylor BCTMP mill will complete a planned maintenance outage in the second quarter of 2015 with a projected 3,000 tonnes of reduced production.

On April 28, 2015, the Board of Directors declared a quarterly dividend of \$0.0625 per share, payable on May 19, 2015, to the shareholders of record on May 11, 2015.



Michael J. Korenberg
Chairman



Don B. Kayne
Chief Executive Officer

Canfor Pulp Products Inc.
First Quarter 2015
Management's Discussion and Analysis

This interim Management's Discussion and Analysis ("MD&A") provides a review of Canfor Pulp Products Inc.'s ("CPPI" or "the Company") financial performance for the quarter ended March 31, 2015 relative to the quarters ended December 31, 2014 and March 31, 2014, and the financial position of the Company at March 31, 2015. It should be read in conjunction with CPPI's unaudited interim consolidated financial statements and accompanying notes for the quarters ended March 31, 2015 and 2014, as well as the 2014 annual MD&A and the 2014 audited consolidated financial statements and notes thereto, which are included in CPPI's Annual Report for the year ended December 31, 2014 (available at www.canforpulp.com). The financial information in this interim MD&A has been prepared in accordance with International Financial Reporting Standards ("IFRS"), which is the required reporting framework for Canadian publicly accountable enterprises.

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

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

All financial references are in millions of Canadian dollars unless otherwise noted. The information in this report is as at April 28, 2015.

Forward Looking Statements

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

FIRST QUARTER 2015 OVERVIEW

Selected Financial Information and Statistics

(millions of Canadian dollars, except per share amounts)	Q1 2015	Q4 2014	Q1 2014
Operating income (loss) by segment:			
Pulp	\$ 36.3	\$ 23.7	\$ 35.0
Paper	\$ 7.9	\$ 7.2	\$ 4.5
Unallocated	\$ (2.8)	\$ (2.9)	\$ (3.1)
Total operating income	\$ 41.4	\$ 28.0	\$ 36.4
Add: Amortization	\$ 15.7	\$ 15.2	\$ 16.0
Total operating income before amortization¹	\$ 57.1	\$ 43.2	\$ 52.4
Add (deduct):			
Working capital movements	\$ (9.5)	\$ 8.5	\$ (19.9)
Defined benefit pension plan contributions	\$ (0.4)	\$ (1.1)	\$ (2.5)
Income taxes paid, net	\$ (12.5)	\$ (1.0)	\$ (9.6)
Other operating cash flows, net	\$ 4.9	\$ 3.6	\$ 3.5
Cash from operating activities	\$ 39.6	\$ 53.2	\$ 23.9
Add (deduct):			
Dividends paid	\$ (4.4)	\$ (4.4)	\$ (3.5)
Finance expenses paid	\$ (0.5)	\$ (0.7)	\$ (0.8)
Capital additions, net	\$ (13.4)	\$ (11.3)	\$ (10.0)
Acquisition of Taylor Pulp Mill	\$ (12.6)	\$ -	\$ -
Share purchases	\$ (1.7)	\$ -	\$ -
Other, net	\$ 0.2	\$ 0.2	\$ -
Change in cash / operating loans	\$ 7.2	\$ 37.0	\$ 9.6
ROIC – Consolidated period-to-date ²	7.2%	4.6%	5.8%
Average exchange rate (US\$ per C\$1.00)³	\$ 0.806	\$ 0.881	\$ 0.906

¹ Amortization includes amortization of certain capitalized major maintenance costs.

² Consolidated Return on Invested Capital ("ROIC") is equal to operating income, plus realized gains/losses on derivatives and other income/expense, divided by the average invested capital during the period. Invested capital is equal to capital assets, plus long-term investments and net non-cash working capital.

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

Analysis of Specific Material Items Affecting Comparability of Net Income

After-tax impact (millions of Canadian dollars, except per share amounts)	Q1 2015	Q4 2014	Q1 2014
Net income, as reported	\$ 28.0	\$ 20.7	\$ 25.7
Loss on derivative financial instruments	\$ 5.3	\$ 0.6	\$ 1.0
Net impact of above items	\$ 5.3	\$ 0.6	\$ 1.0
Adjusted net income	\$ 33.3	\$ 21.3	\$ 26.7
Net income per share (EPS), as reported	\$ 0.40	\$ 0.29	\$ 0.36
Net impact of above items per share	\$ 0.07	\$ 0.01	\$ 0.01
Adjusted net income per share	\$ 0.47	\$ 0.30	\$ 0.37

The Company reported operating income of \$41.4 million for the first quarter of 2015, an increase of \$13.4 million from \$28.0 million reported for the fourth quarter of 2014. The improvement in operating income compared to the previous quarter principally reflected increased unit sales realizations for both the pulp and paper segments, driven by a significantly weaker Canadian dollar, which more than offset lower US dollar prices, and reduced pulp unit manufacturing costs primarily attributable to the impact of the scheduled maintenance outage in the pulp segment in the fourth quarter of 2014. The Company's results for the current quarter also included the recently acquired Taylor Bleached Chemi-Thermo Mechanical Pulp ("BCTMP") Mill, purchased from Canfor on January 30, 2015.

Softwood pulp markets weakened somewhat in the first quarter of 2015, for the most part reflecting strong industry operating rates and increased inventory levels in the marketplace. Reflecting the global softwood pulp market conditions, average list prices for Northern Bleached Softwood Kraft ("NBSK") pulp, as published by RISI, were down in all regions, with the North American average NBSK pulp list price declining US\$30 per tonne, or 3%, to US\$995 and the list price to China seeing a larger decline, down US\$52 per tonne, or 7%. Despite this, the Company's NBSK pulp sales realizations showed a modest increase from the prior quarter, largely as a result of the sharp deterioration of the Canadian dollar (down 9%) and increased shipments to higher-margin regions in the current quarter.

Pulp shipments increased 5% from the previous quarter, reflecting additional shipments from the recently acquired Taylor Pulp Mill. Total NBSK pulp shipments were down moderately quarter-over-quarter, with increased demand from North America more than offset by reduced shipments to Asia, in part reflecting the traditional Chinese Lunar New Year holiday. Pulp production levels were up 19%, reflecting both the contribution of the Taylor Pulp Mill as well as increased NBSK pulp production following the scheduled maintenance outage at the Northwood Pulp Mill in the previous quarter. Pulp unit manufacturing costs in the first quarter of 2015 were down moderately compared to the fourth quarter of 2014, principally attributable to the maintenance outage in the previous quarter.

The Company's paper segment results were up slightly from the previous quarter, with improved unit sales realizations, resulting principally from the weaker Canadian dollar, partially offset by lower shipments and marginally higher unit manufacturing costs, the latter reflecting market-driven increases in slush pulp costs. Paper production was in line with the previous quarter.

For the first quarter of 2015, the Company recorded a net loss of \$7.2 million related to its derivative financial instruments principally reflecting the impact of the continued weakening of the Canadian dollar on US dollar foreign exchange collars. Smaller unrealized losses on crude oil collars, due to the continued decline in oil prices in the first quarter of the 2015, also contributed to the loss in the quarter.

Compared to the first quarter of 2014, operating income was up \$5.0 million, driven by higher earnings from the paper segment, while the pulp segment's operating income was broadly in line with the same period in 2014. Both segments benefitted from increased unit sales realizations reflecting an 11% weaker Canadian dollar as well as increased shipments, in part attributable to the transportation challenges experienced in the first quarter of 2014. The pulp segment also benefitted from the contribution of the Taylor Pulp Mill in the current quarter. Somewhat offsetting these gains were marginally higher unit manufacturing costs for both segments, in part due to market-driven increases in raw materials.

OPERATING RESULTS BY BUSINESS SEGMENT

Pulp

Selected Financial Information and Statistics – Pulp

(millions of Canadian dollars unless otherwise noted)	Q1 2015	Q4 2014	Q1 2014
Sales	\$ 231.7	\$ 221.4	\$ 190.7
Operating income before amortization ⁴	\$ 51.1	\$ 38.0	\$ 50.1
Operating income	\$ 36.3	\$ 23.7	\$ 35.0
Average pulp price delivered to US – US\$ ⁵	\$ 995	\$ 1,025	\$ 1,017
Average price in Cdn\$	\$ 1,235	\$ 1,164	\$ 1,122
Production – pulp (000 mt) ⁶	287.8	241.1	258.7
Shipments – pulp (000 mt) ⁶	272.1	258.6	222.4
Marketed on behalf of Canfor ⁶	15.2	55.4	33.5

⁴ Amortization includes amortization of certain capitalized major maintenance costs.

⁵ Per tonne, NBSK pulp list price delivered to U.S. (as published by RISI).

⁶ Pulp production and shipment volumes in Q1 2015 include BCTMP volumes subsequent to CPPI's purchase of the Taylor BCTMP Mill on January 30, 2015 (see further discussion in the "Purchase of Taylor Pulp Mill" section). Following the sale, CPPI no longer markets any product on behalf of Canfor.

Overview

Operating income for the pulp segment was \$36.3 million for the first quarter of 2015, an improvement of \$12.6 million from the previous quarter and broadly in line with the first quarter of 2014. The current quarter's pulp segment financial results and information include the recently acquired Taylor Pulp Mill.

Improved pulp segment results compared to the previous quarter reflected a modest improvement in NBSK pulp sales realizations, driven by a 9% weaker Canadian dollar as well as reduced manufacturing costs mainly attributable to the scheduled maintenance outage in the previous quarter, offset in part by seasonally higher energy costs. NBSK pulp sales realizations also benefitted from increased shipments to higher-margin regions. Partially offsetting these improvements in the quarter were reduced NBSK pulp US dollar list prices, reflecting a weakening of the NBSK pulp market over the quarter, and overall lower NBSK pulp shipment volumes, in part due to the Chinese Lunar New Year holiday.

Operating results were broadly in line with the first quarter of 2014, with increased NBSK pulp shipments and an 11% weaker Canadian dollar offset by moderate reductions in US dollar prices to all regions and a marginal increase in unit manufacturing costs. Higher unit manufacturing costs reflected a largely market-driven increase in fibre costs and to a lesser degree, higher chemical costs, offset in part by lower energy costs due to reduced natural gas prices as well as lower energy consumption.

Markets

Global softwood pulp markets weakened through the first quarter of 2015 reflecting strong industry operating rates and producer inventories outside of the balanced range. The industry historically takes minimal maintenance downtime during the first quarter of the year. Pulp producer inventories increased to 33 days of supply, up 2 days from December 2014⁷. 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 down 3% in the first quarter of 2015 compared to the previous quarter and broadly in line with the same period in 2014⁸. The decrease in softwood pulp shipments compared to the fourth quarter of 2014 reflected decreased shipments to Asia, which are typically slower in the first quarter reflecting the impact of the Chinese Lunar New Year break.

⁷ World 20 data is based on twenty producing countries representing 80% of world chemical market pulp capacity and is based on information compiled and prepared by the Pulp and Paper Products Council ("PPPC").

⁸ As reported PPPC statistics.

Sales

The Company's pulp shipments in the first quarter of 2015 totalled 272,100 tonnes, an increase of 13,500 tonnes, or 5%, from the previous quarter, reflecting the contribution of the Taylor Pulp Mill for two months of the quarter partially offset by a 9% reduction in NBSK pulp shipments. Reduced NBSK pulp shipments reflected a reduction in shipments to Asia, primarily China, in part due to the traditional Chinese Lunar New Year holiday in the current quarter, while shipments of NBSK pulp to North America saw a moderate increase. Compared to the same period in 2014, pulp shipments were up 49,700 tonnes, or 22%, mostly due to the addition of the Taylor Pulp Mill and to a lesser extent, higher NBSK pulp demand in North America and Asia, which more than offset weaker demand from Europe.

Average NBSK pulp list prices, as published by RISI, declined modestly to all regions through the first quarter of 2015, driven in part by a modest growth in producer inventories reflecting minimal industry maintenance during the first quarter. The North American average NBSK pulp list price decreased US\$30 per tonne, or 3%, to US\$995 and the list price to China saw a more marked decline, down US\$52 per tonne, or 7%. Overall current quarter NBSK pulp sales realizations were up modestly, benefitting from the continued weakening of the Canadian dollar, which was down 9% from the previous quarter, and increased shipments to higher-margin regions, which more than offset the lower US dollar NBSK pulp prices. BCTMP unit sales realizations also benefitted from the weaker Canadian dollar, which more than offset moderately lower market prices in the current quarter.

Compared to the first quarter of 2014, NBSK pulp sales realizations also experienced modest gains, largely as a result of the 11% weaker Canadian dollar. Offsetting the full benefit of the weaker Canadian dollar were lower NBSK pulp US dollar list prices in all regions, as published by RISI, and to a lesser extent, increased discounts in North America. The average NBSK pulp list price to North America saw a modest decrease of US\$22 per tonne, while the average list price to China saw a more significant decline of US\$94 per tonne. BCTMP sales realizations also reflected the favourable impact of the weaker Canadian dollar which more than outweighed declines in market prices.

Operations

Pulp production in the current quarter was 287,800 tonnes, up 46,700 tonnes, or 19%, from the previous quarter, and up 29,100 tonnes, or 11%, from the first quarter of 2014. The increase in production from both comparable periods principally reflected the contribution from the recently purchased Taylor Pulp Mill. Excluding the volume from the Taylor Pulp Mill, the Company's NBSK pulp production increased compared to the previous quarter but was down slightly compared to the same period in the prior year. There were no maintenance outages in the current quarter while the previous quarter included a scheduled maintenance outage at the Northwood Pulp Mill which resulted in reduced market pulp production of 17,000 tonnes. The current quarter NBSK pulp production included planned recovery boiler maintenance at all facilities ranging from 2 to 3 days, while NBSK pulp operating rates were in line with the prior quarters.

Pulp unit manufacturing costs saw a moderate decrease from the previous quarter, with the inclusion of the lower cost BCTMP unit costs and reflecting the higher costs associated with the scheduled maintenance outage in the fourth quarter of 2014, offset somewhat by seasonally higher energy costs. Fibre costs were broadly in line with the fourth quarter of 2014 as market-related increases in prices for sawmill residual chips, where prices are linked to Canadian dollar NBSK pulp sales realizations, were offset by seasonal pricing adjustments and, to a lesser extent, a reduced proportion of higher-cost whole log chips.

Compared to the first quarter of 2014, unit manufacturing costs were up marginally, primarily driven by increased fibre costs and to a lesser extent, higher chemical costs and the impact of lower production levels as well as increased planned maintenance spend (timing related). Somewhat mitigating these increased costs were lower energy costs, mainly as a result of lower natural gas prices in the current quarter. Contributing to the higher fibre costs in the current quarter were higher prices for sawmill residual chips, reflecting increased market prices, coupled with a modestly increased proportion of higher-cost whole log chips.

Paper

Selected Financial Information and Statistics – Paper

(millions of Canadian dollars unless otherwise noted)	Q1 2015	Q4 2014	Q1 2014
Sales	\$ 40.6	\$ 42.5	\$ 34.8
Operating income before amortization ⁹	\$ 8.8	\$ 8.0	\$ 5.4
Operating income	\$ 7.9	\$ 7.2	\$ 4.5
Production – paper (000 mt)	35.4	36.0	36.7
Shipments – paper (000 mt)	32.1	35.8	31.3

⁹ Amortization includes amortization of certain capitalized major maintenance costs.

Overview

Operating income for the paper segment was \$7.9 million for the first quarter of 2015, up \$0.7 million from the fourth quarter of 2014 and up \$3.4 million from the first quarter of 2014.

The increase in operating income compared to the previous quarter reflected increased unit sales realizations, resulting from the weaker Canadian dollar and increased prime bleached sales, largely offset by a marginal increase in unit manufacturing costs, driven by market-related increases in slush pulp costs and a 10% reduction in total paper shipments due to lower demand from the North American market early in the year.

Compared to the first quarter of 2014, higher operating income resulted principally from the contribution of the weaker Canadian dollar and increased prime bleached sales on improved unit sales realizations. Somewhat offsetting these gains were marginally higher unit manufacturing costs reflecting higher slush pulp costs, the unfavourable impact of reduced production volumes and the timing of maintenance spend.

Markets

Global kraft paper market demand softened through the first quarter of 2015. North American markets were impacted by the relative weakening of the European Euro as European producers were able to competitively price into North American markets in US dollar terms, while European importers' purchasing power was diminished by the weakening Euro.

Sales

The Company's paper shipments in the first quarter of 2015 were 32,100 tonnes, down 3,700 tonnes, or 10%, from the previous quarter and up 800 tonnes, or 3%, from the same period of the previous year. The reduced shipments compared to the previous quarter were principally due to lower demand from North America, while the increased shipments compared to the same period in 2014 in part reflected the transportation challenges faced in that quarter. Prime bleached shipments, which attract higher prices, were up 2% from the previous quarter and 8% from the first quarter of 2014.

Current quarter unit sales realizations saw a moderate increase from the fourth quarter of 2014 and were well up from the same period in the previous year, principally due to the impact of the weaker Canadian dollar relative to the fourth and first quarters of 2014, down 9% and 11%, respectively, as well as the increased prime bleached shipments relative to both comparable periods. Compared to the previous quarter, the benefit of the weaker Canadian dollar was offset partly by a decline in realizations on some of the Company's sales to Europe due to the strengthening of the Canadian dollar compared to the European Euro. Current quarter unit sales realizations also benefitted from increased prices compared to the same period in 2014.

Operations

Paper production in the first quarter of 2015 was 35,400 tonnes, relatively in line with the previous quarter and down 1,300 tonnes, or 4%, from the first quarter of 2014. The decrease in production compared to the first quarter of 2014 in part reflected slightly lower operating rates in the current quarter.

Paper unit manufacturing costs increased marginally from the previous quarter, driven by higher slush pulp costs due to higher overall pulp sales realizations in the current quarter and to a lesser degree, seasonally higher energy costs, offset in part by reduced spend on maintenance (timing related) and operating supplies in the current quarter.

Compared to the first quarter of 2014, paper unit manufacturing costs also increased marginally, again reflecting the impact of higher market pulp prices on slush pulp costs, coupled with the unfavourable impact of lower production volumes on unit costs and the timing of spend on maintenance in the current quarter. Lower spend on operating supplies in the current quarter helped to mitigate these increases slightly.

Unallocated Items

Selected Financial Information

(millions of Canadian dollars)	Q1 2015	Q4 2014	Q1 2014
Corporate costs	\$ (2.8)	\$ (2.9)	\$ (3.1)
Finance expense, net	\$ (1.3)	\$ (1.4)	\$ (1.5)
Loss on derivative financial instruments	\$ (7.2)	\$ (0.8)	\$ (1.4)
Other income, net	\$ 4.8	\$ 1.8	\$ 0.9

Corporate costs were \$2.8 million for the first quarter of 2015, down from both comparative quarters. The decrease in corporate costs reflected higher income from green energy attributes which are not allocated to segment results, offset in part by transaction costs related to the purchase of the Taylor Pulp Mill in the current quarter.

Net finance expense for the first quarter of 2015 was \$1.3 million, broadly in line with the fourth quarter of 2014, and down \$0.2 million from the first quarter of 2014. The decrease from the same quarter in 2014 mainly reflected lower debt levels in the current quarter and no amounts drawn on the Company's operating line during the current quarter.

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 first quarter of 2015, the Company recorded a net loss of \$7.2 million principally reflecting unrealized mark-to-market losses on US dollar foreign exchange collars as a result of the sharp decline of the Canadian dollar at the close of the current quarter relative to the exchange rate at the close of the fourth quarter of 2014, and to a lesser degree, realized and unrealized losses on crude oil collars stemming from the continued decline in oil prices in 2015.

Other income, net for the first quarter of 2015 of \$4.8 million included 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 first quarter of 2015, the Company recorded an after-tax loss of \$2.2 million in relation to changes in the valuation of the Company's employee future benefit plans. The loss principally reflects a lower discount rate used to value the net defined benefit obligation, offset in part by a return on plan assets. After-tax losses of \$12.3 million and \$6.8 million were recorded in the fourth and first quarter of 2014, respectively, both reflecting lower discount rates, offset in part by returns on plan assets.

SUMMARY OF FINANCIAL POSITION

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

(millions of Canadian dollars, except for ratios)	Q1 2015	Q4 2014	Q1 2014
Increase (decrease) in cash and cash equivalents	\$ 7.2	\$ 37.0	\$ 3.4
Operating activities	\$ 39.6	\$ 53.2	\$ 23.9
Financing activities	\$ (6.6)	\$ (5.1)	\$ (10.5)
Investing activities	\$ (25.8)	\$ (11.1)	\$ (10.0)
Ratio of current assets to current liabilities	2.3 : 1	2.5 : 1	2.2 : 1
Net debt to capitalization	(7.2)%	(5.8)%	7.8%
ROIC – Consolidated period-to-date	7.2%	4.6%	5.8%

Changes in Financial Position

Cash generated from operating activities was \$39.6 million in the first quarter of 2015, down \$13.6 million from the previous quarter, with higher cash earnings more than offset by an increase in non-cash working capital and an increase in tax installment payments in the current quarter. The increase in non-cash working capital reflected higher accounts receivable balances, driven largely by increased Canadian dollar sales, and seasonally higher finished goods inventory levels, offset in part by an increase in accounts payable that mainly reflected the timing of payments around quarter end. Compared to the first quarter of 2014, cash generated from operating activities increased by \$15.7 million, largely reflecting a smaller build in non-cash working capital and higher cash earnings in the current quarter compared to the same period in 2014.

Cash used for financing activities was \$6.6 million in the first quarter of 2015, up \$1.5 million from the previous quarter and down \$3.9 million from the first quarter of 2014. Cash flows in the current period included a \$4.4 million dividend (6.25 cents per share), in line with the previous quarter and up from \$3.5 million (5 cents per share) in the first quarter of 2014. Finance expenses paid in the first quarter of 2015 at \$0.5 million were down from both comparable periods, primarily reflecting finance costs paid in the comparable periods related to amounts drawn on the Company's operating line. In the first quarter of 2015, \$7.0 million of shares were purchased, of which \$1.7 million was paid in cash during the period, with the balance paid in early April; no shares were purchased in either comparable periods (see further discussion of the shares purchased under the Normal Course Issuer Bid in the following "Liquidity and Financial Requirements" section). No amounts were drawn against the Company's operating loan facility at the end of the first quarter of 2015.

Cash used for investing activities of \$25.8 million in the current quarter included \$12.6 million paid to acquire Canfor's Taylor Pulp Mill (see further discussion in the "Purchase of Taylor Pulp Mill" section) and payments related to the Intercontinental Pulp Mill's turbine upgrade. Construction of the Intercontinental Pulp Mill turbine was substantially completed in the current quarter. The facility was commissioned early in the second quarter of 2015 and has commenced selling power under an Electricity Purchase Agreement in the second quarter of 2015.

Liquidity and Financial Requirements

At March 31, 2015, CPPI had cash of \$84.0 million and operating loan facilities of \$130.0 million which were unused, except for \$11.8 million reserved for several standby letters of credit related to energy sales agreements.

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

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

On March 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. During the first quarter of 2015, CPPI purchased 489,710 common shares for \$7.0 million (an average of \$14.29 per common share). As a result of the share purchases during the quarter, Canfor's interest in CPPI increased to 50.9% by quarter end. The Company may purchase more shares through the balance of 2015 subject to the terms of the normal course issuer bid and certain Board approved criteria.

Dividends

On April 28, 2015, the Board of Directors declared a quarterly dividend of \$0.0625 per share, payable on May 19, 2015, to the shareholders of record on May 11, 2015.

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 final 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 3 year period, starting January 31, 2015. On the acquisition date and as at March 31, 2015, 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 three months ended March 31, 2015 would have increased by approximately \$8.9 million and consolidated net income for the three months ended March 31, 2015 would have increased by approximately \$0.2 million. The Taylor Pulp Mill's results are recorded in the pulp segment.

OUTLOOK

Pulp

NBSK pulp markets are projected to stabilize somewhat during the industry's annual spring maintenance period in the second quarter of 2015. For the months of April and May 2015, the Company announced NBSK pulp list prices of US\$980 per tonne in North America, unchanged from March 2015, and list price increases to China of US\$10 per tonne for the month of April 2015, and a further US\$20 per tonne for May 2015.

Maintenance outages are planned at the Intercontinental and Prince George Mills in the second quarter of 2015, with a projected 10,000 tonnes of reduced NBSK pulp production. The Taylor BCTMP mill will complete a planned maintenance outage in the second quarter of 2015 with a projected 3,000 tonnes of reduced production.

Paper

Paper demand in North America is projected to strengthen modestly heading into the second quarter of 2015 reflecting strong seasonal demand. Prices in paper markets are at risk of coming under some modest pressure as a result of the stronger US dollar.

A maintenance outage is planned at the Company's Prince George Kraft paper machine in the second quarter of 2015, with a projected 3,000 tonnes of reduced paper production.

OUTSTANDING SHARES

At April 28, 2015, there were 70,340,113 common shares outstanding.

CRITICAL ACCOUNTING ESTIMATES

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

ACCOUNTING STANDARDS ISSUED AND NOT APPLIED

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

In May 2014, the 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, 2017. The Company is in the process of assessing the impact, if any, on the financial statements of this new standard.

Further details of the new accounting Standards and potential impact on CPPI can be found in the Company's Annual Report for the year ended December 31, 2014.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

During the quarter ended March 31, 2015, there were no changes in the Company's internal controls over financial reporting that materially affected, or would be reasonably likely to materially affect, such controls.

RISKS AND UNCERTAINTIES

A comprehensive discussion of risks and uncertainties is included in the Company's 2014 annual statutory reports which are available on www.canforpulp.com or www.sedar.com.

SELECTED QUARTERLY FINANCIAL INFORMATION

	Q1 2015	Q4 2014	Q3 2014	Q2 2014	Q1 2014	Q4 2013	Q3 2013	Q2 2013
Sales and income (millions of Canadian dollars)								
Sales	\$ 273.8	\$ 264.0	\$ 237.6	\$ 252.5	\$ 226.4	\$ 245.6	\$ 196.1	\$ 227.6
Operating income	\$ 41.4	\$ 28.0	\$ 31.4	\$ 29.6	\$ 36.4	\$ 24.0	\$ 11.3	\$ 19.5
Net income	\$ 28.0	\$ 20.7	\$ 24.3	\$ 18.8	\$ 25.7	\$ 14.2	\$ 9.1	\$ 7.6
Per common share (Canadian dollars)								
Net income – basic and diluted	\$ 0.40	\$ 0.29	\$ 0.34	\$ 0.27	\$ 0.36	\$ 0.20	\$ 0.13	\$ 0.11
Book value ¹⁰	\$ 7.17	\$ 6.92	\$ 6.86	\$ 6.56	\$ 6.39	\$ 6.17	\$ 5.79	\$ 5.67
Dividends declared	\$ 0.0625	\$ 0.0625	\$ 0.0625	\$ 0.0625	\$ 0.0625	\$ 0.0500	\$ 0.0500	\$ 0.0500
Statistics								
Pulp shipments (000 mt)	272.1	258.6	240.5	246.9	222.4	273.3	212.2	255.0
Paper shipments (000 mt)	32.1	35.8	35.7	39.7	31.3	31.1	35.5	37.2
Average exchange rate – US\$/Cdn\$	\$ 0.806	\$ 0.881	\$ 0.918	\$ 0.917	\$ 0.906	\$ 0.953	\$ 0.963	\$ 0.977
Average NBSK pulp list price delivered to US (US\$)	\$ 995	\$ 1,025	\$ 1,030	\$ 1,030	\$ 1,017	\$ 983	\$ 947	\$ 937

¹⁰ 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 natural gas swaps and US dollar forward contracts.

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

After-tax impact (millions of Canadian dollars, except for per share amounts)	Q1 2015	Q4 2014	Q3 2014	Q2 2014	Q1 2014	Q4 2013	Q3 2013	Q2 2013
Net income, as reported	\$ 28.0	\$ 20.7	\$ 24.3	\$ 18.8	\$ 25.7	\$ 14.2	\$ 9.1	\$ 7.6
(Gain) loss on derivative financial instruments	\$ 5.3	\$ 0.6	\$ 0.2	\$ (0.4)	\$ 1.0	\$ 0.1	\$ (1.5)	\$ 2.0
Foreign exchange (gain) loss on long-term debt	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3.0	\$ (2.0)	\$ 3.4
Change in substantively enacted tax rate	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2.4
Net impact of above items	\$ 5.3	\$ 0.6	\$ 0.2	\$ (0.4)	\$ 1.0	\$ 3.1	\$ (3.5)	\$ 7.8
Adjusted net income	\$ 33.3	\$ 21.3	\$ 24.5	\$ 18.4	\$ 26.7	\$ 17.3	\$ 5.6	\$ 15.4
Net income per share (EPS), as reported	\$ 0.40	\$ 0.29	\$ 0.34	\$ 0.27	\$ 0.36	\$ 0.20	\$ 0.13	\$ 0.11
Net impact of above items per share	\$ 0.07	\$ 0.01	\$ -	\$ (0.01)	\$ 0.01	\$ 0.04	\$ (0.05)	\$ 0.11
Adjusted net income per share	\$ 0.47	\$ 0.30	\$ 0.34	\$ 0.26	\$ 0.37	\$ 0.24	\$ 0.08	\$ 0.22

Canfor Pulp Products Inc.
Condensed Consolidated Balance Sheets

(millions of Canadian dollars, unaudited)	As at March 31, 2015	As at December 31, 2014
ASSETS		
Current assets		
Cash and cash equivalents	\$ 84.0	\$ 76.8
Accounts receivable - Trade	72.2	60.7
- Other	14.7	10.0
Inventories (Note 2)	172.5	143.7
Prepaid expenses and other assets	6.2	11.2
Total current assets	349.6	302.4
Property, plant and equipment	521.6	524.1
Other long-term assets	0.9	0.9
Total assets	\$ 872.1	\$ 827.4
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	\$ 149.1	\$ 123.2
Total current liabilities	149.1	123.2
Long-term debt	50.0	50.0
Retirement benefit obligations (Note 4)	100.0	94.9
Other long-term provisions	7.3	4.2
Deferred income taxes, net	61.7	65.5
Total liabilities	\$ 368.1	\$ 337.8
EQUITY		
Share capital	\$ 518.5	\$ 522.1
Retained earnings (deficit)	(14.5)	(32.5)
Total equity	\$ 504.0	\$ 489.6
Total liabilities and equity	\$ 872.1	\$ 827.4

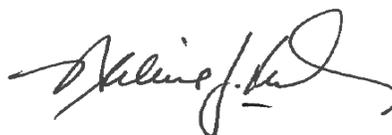
Subsequent Event (Note 12)

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

APPROVED BY THE BOARD



Director, S.E. Bracken-Horrocks



Director, M.J. Korenberg

Canfor Pulp Products Inc.
Condensed Consolidated Statements of Income

(millions of Canadian dollars, except per share data, unaudited)	3 months ended March 31,	
	2015	2014
Sales	\$ 273.8	\$ 226.4
Costs and expenses		
Manufacturing and product costs	171.1	138.5
Freight and other distribution costs	38.1	28.9
Amortization	15.7	16.0
Selling and administration costs	7.5	6.6
	232.4	190.0
Operating income	41.4	36.4
Finance expense, net	(1.3)	(1.5)
Loss on derivative financial instruments (Note 5)	(7.2)	(1.4)
Other income, net	4.8	0.9
Net income before income taxes	37.7	34.4
Income tax expense (Note 6)	(9.7)	(8.7)
Net income	\$ 28.0	\$ 25.7
Net income per common share: (in Canadian dollars)		
Attributable to equity shareholders of the Company		
- Basic and diluted (Note 7)	\$ 0.40	\$ 0.36

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

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

(millions of Canadian dollars, unaudited)	3 months ended March 31,	
	2015	2014
Net income	\$ 28.0	\$ 25.7
Other comprehensive income (loss)		
Items that will not be recycled through net income:		
Defined benefit plan actuarial losses (Note 4)	(3.0)	(9.2)
Income tax recovery on defined benefit plan actuarial losses (Note 6)	0.8	2.4
Other comprehensive income (loss), net of tax	(2.2)	(6.8)
Total comprehensive income	\$ 25.8	\$ 18.9

Condensed Consolidated Statements of Changes in Equity

(millions of Canadian dollars, unaudited)	3 months ended March 31,	
	2015	2014
Share capital		
Balance at beginning of period	\$ 522.1	\$ 523.4
Share purchases (Note 7)	(3.6)	-
Balance at end of period	\$ 518.5	\$ 523.4
Retained earnings (deficit)		
Balance at beginning of period	\$ (32.5)	\$ (85.4)
Net income	28.0	25.7
Defined benefit plan actuarial losses, net of tax	(2.2)	(6.8)
Dividends declared	(4.4)	(3.5)
Share purchases (Note 7)	(3.4)	-
Balance at end of period	\$ (14.5)	\$ (70.0)
Total equity	\$ 504.0	\$ 453.4

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

Canfor Pulp Products Inc.
Condensed Consolidated Statements of Cash Flows

	3 months ended March 31,	
(millions of Canadian dollars, unaudited)	2015	2014
Cash generated from (used in):		
Operating activities		
Net income	\$ 28.0	\$ 25.7
Items not affecting cash:		
Amortization	15.7	16.0
Income tax expense	9.7	8.7
Changes in mark-to-market value of derivative financial instruments	7.0	1.2
Employee future benefits	1.4	1.2
Finance expense, net	1.3	1.5
Other, net	(1.1)	1.6
Defined benefit plan contributions, net	(0.4)	(2.5)
Income taxes paid, net	(12.5)	(9.6)
	49.1	43.8
Net change in non-cash working capital (Note 8)	(9.5)	(19.9)
	39.6	23.9
Financing activities		
Change in operating bank loans	-	(6.2)
Finance expenses paid	(0.5)	(0.8)
Dividends paid	(4.4)	(3.5)
Share purchases (Note 7)	(1.7)	-
	(6.6)	(10.5)
Investing activities		
Additions to property, plant and equipment, net	(13.4)	(10.0)
Acquisition of Taylor Pulp Mill (Note 11)	(12.6)	-
Other, net	0.2	-
	(25.8)	(10.0)
Increase in cash and cash equivalents*	7.2	3.4
Cash and cash equivalents at beginning of period*	76.8	13.5
Cash and cash equivalents at end of period*	\$ 84.0	\$ 16.9

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

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

Canfor Pulp Products Inc. Notes to the Condensed Consolidated Financial Statements

(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 March 31, 2015, Canfor Corporation ("Canfor") held a 50.9% 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, 2014, available at www.canforpulp.com or www.sedar.com.

These financial statements were authorized for issue by the Company's Board of Directors on April 28, 2015.

Accounting Standards Issued and Not Applied

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

In May 2014, the 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, 2017. The Company is in the process of assessing the impact, if any, on the financial statements of this new standard.

Further details of the new accounting standards and potential impact on CPPI can be found in the Company's Annual Report for the year ended December 31, 2014.

2. Inventories

(millions of Canadian dollars)	As at March 31, 2015	As at December 31, 2014
Pulp	\$ 89.0	\$ 68.8
Paper	20.8	17.4
Wood chips and logs	12.3	12.1
Materials and supplies	50.4	45.4
	\$ 172.5	\$ 143.7

3. Operating Loans

Available Operating Loans

(millions of Canadian dollars)	As at March 31, 2015	As at December 31, 2014
Operating loan facility	\$ 110.0	\$ 110.0
Facility for letters of credit related to energy agreements	20.0	20.0
Total operating loan and credit facility	130.0	130.0
Operating loan drawn	-	-
Energy letters of credit	(11.8)	(12.2)
Total available operating loans and letter of credit facility	\$ 118.2	\$ 117.8

The terms of the Company's operating loan facility include interest payable at floating rates that vary depending on the ratio of net 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 that stipulate maximum net debt to total capitalization ratios and minimum net worth amounts based on shareholders' equity. The maturity date of this facility is January 31, 2018.

The Company has a separate facility with a maturity date of June 30, 2015 to cover energy-related letters of credit. At March 31, 2015, \$9.4 million of energy-related letters of credit were covered under this facility with the balance of \$2.4 million covered under the Company's general operating loan facility.

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

4. Employee Future Benefits

For the three months ended March 31, 2015, defined benefit actuarial losses of \$3.0 million (before tax) was recognized in other comprehensive income. The loss recorded in the first quarter of 2015 principally reflects a lower discount rate used to value the net defined benefit obligation, offset in part by the return on plan assets. For the three months ended March 31, 2014, a loss of \$9.2 million (before tax) was recognized in other comprehensive income.

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 \$26.4 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, 2015	3.60%	3.60%
December 31, 2014	3.90%	3.90%
March 31, 2014	4.40%	4.50%
December 31, 2013	4.80%	4.90%

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

At March 31, 2015, the fair value of derivative financial instruments was a net liability of \$8.0 million (December 31, 2014 – net liability of \$1.0 million). The fair value of these financial instruments was determined based on prevailing market rates for instruments with similar characteristics.

The following table summarizes the loss on level 2 derivative financial instruments for the three month periods ended March 31, 2015 and 2014:

(millions of Canadian dollars)	3 months ended March 31,	
	2015	2014
Foreign exchange collars	\$ (6.8)	\$ (1.0)
Crude oil collars	(0.4)	-
Interest rate swaps	-	(0.1)
Pulp futures	-	(0.3)
Loss on derivative financial instruments	\$ (7.2)	\$ (1.4)

6. Income Taxes

(millions of Canadian dollars)	3 months ended March 31,	
	2015	2014
Current	\$ (12.7)	\$ (5.0)
Deferred	3.0	(3.7)
Income tax expense	\$ (9.7)	\$ (8.7)

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

(millions of Canadian dollars)	3 months ended March 31,	
	2015	2014
Income tax expense at statutory rate 2015 – 26.0% (2014 – 26.0%)	\$ (9.8)	\$ (8.9)
Add (deduct):		
Permanent difference from capital gains and other non-deductible items	-	(0.1)
Entities with different income tax rates and other tax adjustments	0.1	0.3
Income tax expense	\$ (9.7)	\$ (8.7)

In addition to the amounts recorded to net income, a tax recovery of \$0.8 million was recorded in other comprehensive income for the three month period ended March 31, 2015 (three months ended March 31, 2014 – recovery of \$2.4 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,	
	2015	2014
Weighted average number of common shares	70,807,596	71,007,341

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. During the first quarter of 2015, CPPI purchased 489,710 common shares for \$7.0 million (an average of \$14.29 per common share), of which \$1.7 million was paid in the period, with the balance paid in early April. As a result of the share purchases during the quarter, Canfor's interest in CPPI increased to 50.9% by quarter end. As at April 28, 2015, there were 70,340,113 common shares outstanding.

8. Net Change in Non-Cash Working Capital

(millions of Canadian dollars)	3 months ended March 31,	
	2015	2014
Accounts receivable	\$ (14.8)	\$ 0.5
Inventories	(13.2)	(21.4)
Prepaid expenses and other assets	5.7	2.3
Accounts payable and accrued liabilities	12.8	(1.3)
Net increase in non-cash working capital	\$ (9.5)	\$ (19.9)

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)	Pulp	Paper	Unallocated	Elimination Adjustment	Consolidated
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
3 months ended March 31, 2014					
Sales to external customers	\$ 190.7	34.8	0.9	-	\$ 226.4
Sales to other segments	\$ 24.5	-	-	(24.5)	\$ -
Operating income (loss)	\$ 35.0	4.5	(3.1)	-	\$ 36.4
Amortization	\$ 15.1	0.9	-	-	\$ 16.0
Capital expenditures ¹	\$ 9.9	0.1	-	-	\$ 10.0
Identifiable assets	\$ 675.4	59.6	39.3	-	\$ 774.3

¹ Capital expenditures represent cash paid for capital assets during the periods and include capital expenditures that were partially financed by government grants. Capital expenditures for the three 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

The Company depends on Canfor to provide approximately 61% (2014 – 59%) 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, 2014 audited consolidated financial statements of CPPI and are based on agreed upon amounts between the parties.

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

(millions of Canadian dollars)	3 months ended March 31,	
	2015	2014
Transactions		
Purchase of wood chips and other, net	\$ 37.9	\$ 35.0
Balance Sheet		
(millions of Canadian dollars)	As at March 31, 2015	As at December 31, 2014
Included in accounts payable and accrued liabilities:	\$ 17.7	\$ 18.0
Included in trade and other accounts receivable:	\$ 0.2	\$ 1.7

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 final 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 and as at March 31, 2015, 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 three months ended March 31, 2015 would have increased by approximately \$8.9 million and consolidated net income for the three months ended March 31, 2015 would have increased by approximately \$0.2 million. The Taylor Pulp Mill's results are recorded in the pulp segment.

12. Subsequent Event

On April 28, 2015, the Board of Directors declared a quarterly dividend of \$0.0625 per share, payable on May 19, 2015, to shareholders of records on May 11, 2015.