2018

CANFOR PULP PRODUCTS INC.

QUARTER TWO
Interim Report

FOR THE THREE MONTHS
ENDED JUNE 30, 2018

CANFOR

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To Our Shareholders

Canfor Pulp Products Inc. ("CPPI") reported second quarter 2018 results and quarterly dividend:

Highlights

- Third consecutive record-high quarterly operating income of $85 million
- Record-high Q2, 2018 sales of $396 million, reflecting strong shipments and sales realizations
- Net income of $63 million, or $0.97 per share

Financial Results

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

(millions of Canadian dollars, except per share amounts)	Q2 2018	Q1 2018	YTD 2018	Q2 2017	YTD 2017
Sales	**$ 396.4**	$ 359.7	**$ 756.1**	$ 280.9	$ 590.1
Operating income before amortization	**$ 105.1**	$ 104.3	**$ 209.4**	$ 50.0	$ 104.0
Operating income	**$ 85.4**	$ 85.1	**$ 170.5**	$ 31.5	$ 66.7
Net income	**$ 63.0**	$ 64.3	**$ 127.3**	$ 20.2	$ 44.3
Net income per share, basic and diluted	**$ 0.97**	$ 0.99	**$ 1.95**	$ 0.31	$ 0.67

The Company reported operating income of $85.4 million for the second quarter of 2018, an increase of $0.3 million from the $85.1 million reported for the first quarter of 2018 reflecting favourable Northern Bleached Softwood Kraft ("NBSK") pulp unit sales realizations, increased shipments following major weather-related transportation disruptions experienced in the first quarter of 2018 and to a lesser extent, improved NBSK pulp mill productivity. These factors more than offset the impact of scheduled maintenance outages and market-related fibre cost increases in the quarter.

Global softwood pulp markets remained strong through the second quarter of 2018, with near-record high US-dollar NBSK pulp list prices to China reflecting tighter supply during the traditional spring maintenance period as well as healthy global demand. Average NBSK pulp unit sales realizations were moderately higher than the previous quarter reflecting a 2 cent, or 2%, weaker Canadian dollar combined with rising US-dollar NBSK pulp list pricing in other regions, particularly North America. Average Bleached Chemi-Thermo Mechanical Pulp ("BCTMP") unit sales realizations showed a moderate decrease quarter-over-quarter, with lower US-dollar pricing more than offsetting the weaker Canadian dollar.

Pulp shipments were up 6% from the previous quarter, reflecting strong market demand and an unwinding of inventory resulting from the transportation challenges in the previous quarter. Pulp production was down 5% from the previous quarter following scheduled maintenance outages at the Company's Prince George NBSK pulp mill, as well as at its Taylor BCTMP mill, which reduced NBSK pulp production by approximately 4,000 tonnes and BCTMP production by approximately 17,000 tonnes, offset in part by improved productivity at the Company's NBSK pulp mills. The scheduled maintenance outage at the Prince George pulp mill was completed ahead of schedule. The Taylor BCTMP mill's reduced production included extended downtime in connection with the commissioning of its previously announced energy project, which is now achieving anticipated operating rates.

Pulp unit manufacturing costs were moderately higher than the previous quarter, with seasonally lower energy prices and usage partly offsetting market-driven increases in fibre costs and higher unit costs associated with the aforementioned scheduled outages.

Operating income in the Company's paper segment at $1.5 million was down $1.4 million from the first quarter of 2018, as increased slush pulp costs linked to higher Canadian dollar NBSK market pulp prices more than offset improved paper unit sales realizations and a weaker Canadian dollar.

Notwithstanding some seasonal weakness in China during the traditionally slower summer months, global softwood kraft pulp markets are projected to be balanced through the third quarter of 2018. For the months of July and August 2018, the Company announced NBSK pulp list price increases in North America of US$40 per tonne and US$30 per tonne, respectively. Results in the third quarter of 2018 will include a scheduled maintenance outage at Northwood, the Company's largest NBSK pulp mill, with a projected 28,000 tonnes of reduced NBSK pulp production, combined with higher associated maintenance costs and lower projected shipment volume. Bleached kraft paper demand is anticipated to remain stable through the third quarter of 2018.

On July 25, 2018, the Board of Directors declared a quarterly dividend of $0.0625 per share, payable on August 14, 2018 to the shareholders of record on August 7, 2018.

Conrad A. Pinette	**Don B. Kayne**
Chairman	**Chief Executive Officer**

Canfor Pulp Products Inc.
Second Quarter 2018
Management's Discussion and Analysis

This interim Management's Discussion and Analysis ("MD&A") provides a review of Canfor Pulp Products Inc.'s ("CPPI" or "the Company") financial performance for the quarter ended June 30, 2018 relative to the quarters ended March 31, 2018 and June 30, 2017, and the financial position of the Company at June 30, 2018. It should be read in conjunction with CPPI's unaudited interim consolidated financial statements and accompanying notes for the quarters ended, June 30, 2018 and 2017, as well as the 2017 annual MD&A and the 2017 audited consolidated financial statements and notes thereto, which are included in CPPI's Annual Report for the year ended December 31, 2017 (available at www.canfor.com). The financial information in this interim MD&A has been prepared in accordance with International Financial Reporting Standards ("IFRS"), which is the required reporting framework for Canadian publicly accountable enterprises.

Throughout this discussion, reference is made to Operating Income 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 (calculated as Net Income less specific items affecting comparability with prior periods) and Adjusted Net Income per Share (calculated as Adjusted Net Income divided by the weighted average number of shares outstanding during the period). Operating Income before Amortization, Adjusted Net Income and Adjusted Net Income 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 and Adjusted Net Income per Share may not be directly comparable with similarly titled measures used by other companies. Reconciliations of Operating Income before Amortization to Operating Income and Adjusted Net Income to Net Income reported in accordance with IFRS are included in this MD&A. Throughout this discussion reference is made to the current quarter which refers to the results for the second quarter of 2018.

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

All financial references are in millions of Canadian dollars unless otherwise noted. The information in this report is as at July 25, 2018.

Forward Looking Statements

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

SECOND QUARTER 2018 OVERVIEW

Selected Financial Information and Statistics

(millions of Canadian dollars, except per share amounts)	Q2 2018	Q1 2018	YTD 2018	Q2 2017	YTD 2017
Operating income (loss) by segment:					
Pulp	**$ 86.6**	$ 86.4	**$ 173.0**	$ 28.0	$ 59.1
Paper	**$ 1.5**	$ 2.9	**$ 4.4**	$ 6.6	$ 13.7
Unallocated	**$ (2.7)**	$ (4.2)	**$ (6.9)**	$ (3.1)	$ (6.1)
Total operating income	**$ 85.4**	$ 85.1	**$ 170.5**	$ 31.5	$ 66.7
Add: Amortization[1]	**$ 19.7**	$ 19.2	**$ 38.9**	$ 18.5	$ 37.3
Total operating income before amortization	**$ 105.1**	$ 104.3	**$ 209.4**	$ 50.0	$ 104.0
Add (deduct):					
Working capital movements	**$ (7.7)**	$ (22.2)	**$ (29.9)**	$ (2.0)	$ (2.2)
Defined benefit pension plan contributions, net	**$ (1.7)**	$ (1.7)	**$ (3.4)**	$ (1.7)	$ (3.2)
Income taxes received (paid)	**$ 0.2**	$ (19.1)	**$ (18.9)**	$ (0.9)	$ (1.1)
Other operating cash flows, net	**$ 2.0**	$ 5.8	**$ 7.8**	$ (0.9)	$ (2.3)
Cash from operating activities	**$ 97.9**	$ 67.1	**$ 165.0**	$ 44.5	$ 95.2
Add (deduct):					
Dividends paid	**$ (4.1)**	$ (4.1)	**$ (8.2)**	$ (4.1)	$ (8.3)
Finance expenses paid	**$ (1.0)**	$ (0.7)	**$ (1.7)**	$ (0.7)	$ (1.4)
Capital additions, net	**$ (24.8)**	$ (19.8)	**$ (44.6)**	$ (19.2)	$ (36.0)
Share purchases	**$ -**	$ (0.1)	**$ (0.1)**	$ (7.4)	$ (10.2)
Other, net	**$ 0.5**	$ 0.3	**$ 0.8**	$ 0.1	$ 0.3
Change in cash / operating loans	**$ 68.5**	$ 42.7	**$ 111.2**	$ 13.2	$ 39.6
Net income	**$ 63.0**	$ 64.3	**$ 127.3**	$ 20.2	$ 44.3
Net income per share (EPS)	**$ 0.97**	$ 0.99	**$ 1.95**	$ 0.31	$ 0.67
ROIC – Consolidated period-to-date[2]	**12.9%**	12.9%	**25.8%**	4.5%	9.8%
Average exchange rate (US$ per C$1.00)[3]	**$ 0.774**	$ 0.791	**$ 0.782**	$ 0.744	0.750

[1] Amortization includes amortization of certain capitalized major maintenance costs.
[2] 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 period. Invested capital is equal to capital assets, plus long-term investments and net non-cash working capital.
[3] Source – Bank of Canada (monthly average rate for the period).

The Company reported operating income of $85.4 million for the second quarter of 2018, an increase of $0.3 million from the $85.1 million reported for the first quarter of 2018 reflecting favourable Northern Bleached Softwood Kraft ("NBSK") pulp unit sales realizations, increased shipments following major weather-related transportation disruptions experienced in the first quarter of 2018 and to a lesser extent, improved NBSK pulp mill productivity. These factors more than offset the impact of scheduled maintenance outages and market-related fibre cost increases in the quarter.

Compared to the second quarter of 2017, operating income was up $53.9 million reflecting substantially higher average NBSK pulp and Bleached Chemi-Thermo Mechanical Pulp ("BCTMP") US-dollar pricing combined with increased shipments and pulp production. These factors significantly outweighed a 4% stronger Canadian dollar and higher unit manufacturing costs, largely attributable to higher market-based fibre costs.

OPERATING RESULTS BY BUSINESS SEGMENT

Pulp

Selected Financial Information and Statistics – Pulp

(millions of Canadian dollars, unless otherwise noted)	Q2 2018	Q1 2018	YTD 2018	Q2 2017	YTD 2017
Sales	**$ 351.5**	$ 317.5	**$ 669.0**	$ 236.2	$ 503.6
Operating income before amortization[4]	**$ 105.2**	$ 104.5	**$ 209.7**	$ 45.5	$ 94.5
Operating income	**$ 86.6**	$ 86.4	**$ 173.0**	$ 28.0	$ 59.1
Average NBSK pulp price delivered to China – US$[5]	**$ 910**	$ 910	**$ 910**	$ 670	$ 658
Average NBSK pulp price delivered to China – Cdn$[5]	**$ 1,176**	$ 1,150	**$ 1,164**	$ 901	$ 877
Production – pulp (000 mt)	**296.5**	311.7	**608.2**	275.2	592.3
Shipments – pulp (000 mt)	**328.6**	310.0	**638.6**	276.3	613.4

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

[5] Per tonne, NBSK pulp list price delivered to China (as published by Resource Information Systems, Inc.); Average NBSK pulp price delivered to China in Cdn$ calculated as average NBSK pulp price delivered to China – US$ multiplied by the average exchange rate – Cdn$ per US$1.00 according to Bank of Canada monthly average rate for the period.

Markets

Global softwood pulp market conditions remained favourable through the second quarter of 2018, with near-record high US-dollar NBSK pulp list prices reflecting both the traditional spring maintenance period and healthy global demand. Softwood pulp inventories at the end of June 2018 were in the balanced range at 28 days of supply, a decrease of three days from March 2018[6], in part reflecting improved transportation networks in Western Canada, combined with industry maintenance downtime in the second quarter. Market conditions are generally considered balanced when inventories are in the 27-30 days of supply range.

Global shipments of bleached softwood pulp for the first six months of 2018 were in line with the first six months of 2017[7].

Sales

The Company's pulp shipments for the second quarter of 2018 were 328,600 tonnes, up 18,600 tonnes, or 6%, from the previous quarter and up 52,300 tonnes, or 19%, from the second quarter of 2017. Pulp shipments in the current quarter benefitted from sustained strong market demand through the quarter combined with an unwinding of inventory resulting from the transportation challenges in the previous quarter. Compared to the second quarter of 2017, the 19% increase in pulp shipments reflected an 8% increase in pulp production quarter-over-quarter coupled with solid market demand and the aforementioned unwinding of transportation constraints in the current quarter.

The average China US-dollar NBSK pulp list price of US$910 per tonne, as published by RISI, was in line with the previous quarter. Average NBSK pulp unit sales realizations were moderately higher than the previous quarter reflecting the 2 cent, or 2%, weaker Canadian dollar combined with rising US-dollar NBSK pulp list pricing in other regions, particularly North America, and to a lesser extent, the timing of shipments in the previous quarter (versus orders). Average BCTMP unit sales realizations showed a moderate decrease quarter-over-quarter, as a surge in demand and pricing towards the end of 2017 was largely realized in the first quarter of 2018. Although BCTMP demand remained steady, lower US-dollar pricing more than offset the weaker Canadian dollar.

Compared to the second quarter of 2017, the average China US-dollar NBSK pulp list price was up US$240 per tonne, or 36%, while US-dollar list prices on shipments to North America showed more modest gains over the same period. These higher global US-dollar prices resulted in substantially higher average NBSK pulp unit sales realizations, net of a 3 cent, or 4%, stronger Canadian dollar. Average BCTMP unit sales realizations also increased significantly when compared to the second quarter of 2017, primarily reflecting the improvement in BCTMP market demand which more than offset the stronger Canadian dollar in the second quarter of 2018.

[6] 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").

[7] As reported PPPC statistics.

Energy revenues were lower than the first quarter of 2018, primarily reflecting seasonally lower power prices combined with a decrease in power generation related to the aforementioned scheduled maintenance outages in the current period. Energy revenues were modestly higher than the second quarter of 2017, driven by less maintenance outages combined with higher power prices in the current quarter.

Operations

Pulp production in the second quarter of 2018 was 296,500 tonnes, down 15,200 tonnes, or 5% from the first quarter of 2018. During the second quarter of 2018, the Company completed its scheduled maintenance outage ahead of target at its Prince George NBSK pulp mill, which reduced NBSK pulp production by approximately 4,000 tonnes. The Company also completed a scheduled maintenance outage at its Taylor BCTMP mill, including the completion of the previously announced energy project. Extended downtime associated with the commissioning and start-up of the Taylor mill resulted in reduced BCTMP production of approximately 17,000 tonnes. This was offset in part by improved operating rates at the Company's NBSK pulp mills following the challenging weather conditions in the first quarter of 2018.

Pulp production in the current quarter showed a modest increase compared to the second quarter of 2017 after taking account of scheduled maintenance outages at the Company's Northwood NBSK pulp mill and Taylor BCTMP mill in the comparative quarter (which reduced pulp production by approximately 40,000 tonnes).

Pulp unit manufacturing costs saw a moderate increase compared to the previous quarter of 2018 as increased fibre costs, and costs associated with the aforementioned scheduled maintenance outages more than offset seasonally lower energy prices and usage in the current quarter. The higher fibre costs reflected increased market prices for delivered sawmill residual chips (linked to Canadian dollar NBSK pulp sales realizations) combined with a seasonal improvement in chip quality, offset by a lower proportion of higher-cost whole log chips. Compared to the second quarter of 2017, higher pulp unit manufacturing costs were mostly attributable to market-related increases to fibre costs offset in part by improved productivity quarter-over-quarter.

Paper

Selected Financial Information and Statistics – Paper

(millions of Canadian dollars unless otherwise noted)	**Q2 2018**	Q1 2018	**YTD 2018**	Q2 2017	YTD 2017
Sales	**$ 44.7**	$ 42.0	**$ 86.7**	$ 44.6	$ 86.2
Operating income before amortization[8]	**$ 2.6**	$ 4.0	**$ 6.6**	$ 7.6	$ 15.6
Operating income	**$ 1.5**	$ 2.9	**$ 4.4**	$ 6.6	$ 13.7
Production – paper (000 mt)	**30.6**	34.3	**64.9**	33.6	68.2
Shipments – paper (000 mt)	**32.6**	32.0	**64.6**	35.5	69.2

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

Markets

Global kraft paper markets showed continued strength through the second quarter of 2018, supported by solid demand from North American and Asian markets.

Sales

The Company's paper shipments in the second quarter of 2018 were 32,600 tonnes, in line with the first quarter of 2018 as the benefit of improving transportation networks throughout the quarter was offset by lower production following a scheduled maintenance outage in the current quarter. Paper shipments were down 2,900 tonnes from the second quarter of 2017, largely a result of the scheduled maintenance outage at the Company's Prince George paper machine in the current quarter.

Paper unit sales realizations in the second quarter of 2018 saw a modest increase compared to the previous quarter, reflecting higher market-driven US-dollar pricing and the weaker Canadian dollar. Compared to the second quarter of 2017, improved paper unit sales realizations, reflecting favourable US-dollar pricing, more than offset the 4% stronger Canadian dollar.

Operations

Paper production for the second quarter of 2018 was 30,600 tonnes, down 11% compared to the previous quarter and 9% compared to the second quarter of 2017, principally reflecting the scheduled maintenance outage completed in the current quarter which reduced paper production by approximately 4,000 tonnes. The outage contributed to higher paper unit manufacturing costs compared to both comparative quarters, which also reflected increased slush pulp costs associated with higher average NBSK pulp sales realizations in the current quarter.

Unallocated Items

Selected Financial Information

(millions of Canadian dollars)	Q2 2018	Q1 2018	YTD 2018	Q2 2017	YTD 2017
Corporate costs	**$ (2.7)**	$ (4.2)	**$ (6.9)**	$ (3.1)	$ (6.1)
Finance expense, net	**$ (1.3)**	$ (1.2)	**$ (2.5)**	$ (1.7)	$ (3.5)
Other income (expense), net	**$ 2.2**	$ 3.8	**$ 6.0**	$ (2.5)	$ (3.5)

Corporate costs were $2.7 million for the second quarter of 2018, down $1.5 million from the first quarter of 2018 primarily reflecting costs associated with organizational reductions in senior management recorded in the previous quarter. Corporate costs were down $0.4 million from the second quarter of 2017 as a result of lower overhead spend, following the aforementioned changes.

Net finance expense for the second quarter of 2018 at $1.3 million was in line with the first quarter of 2018 and modestly lower than the second quarter of 2017, in part reflecting the early repayment of the Company's $50.0 million long-term debt towards the end of 2017.

Other income of $2.2 million in the second quarter of 2018 principally related to favourable foreign exchange movements on US-dollar denominated working capital balances.

Other Comprehensive Income (Loss)

In the second quarter of 2018, the Company recorded an after-tax gain of $0.1 million related to changes in the valuation of the Company's employee future benefits plans, largely reflecting a return on plan assets greater than the discount rate. This compared to an after-tax gain of $2.4 million in the first quarter of 2018 and an after-tax loss of $8.0 million recorded in the second quarter of 2017, largely reflecting changes in the discount rates used to value the employee future benefit plans and the return generated on plan assets.

In the second quarter of 2017, the Company purchased $18.0 million of annuities through its defined benefit plans in order to mitigate its exposure to the future volatility fluctuations in the related pension obligations. At purchase of these annuities, transaction costs of $1.1 million were recognized in Other Comprehensive Income principally reflecting the difference in the annuity rate as compared to the discount rate used to value the pension obligations on a going concern basis.

SUMMARY OF FINANCIAL POSITION

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

(millions of Canadian dollars, except for ratios)	Q2 2018	Q1 2018	YTD 2018	Q2 2017	YTD 2017
Increase (decrease) in cash and cash equivalents	**$ 68.5**	$ 42.7	**$ 111.2**	$ 13.2	$ 39.6
Operating activities	**$ 97.9**	$ 67.1	**$ 165.0**	$ 44.5	$ 95.2
Financing activities	**$ (5.1)**	$ (4.9)	**$ (10.0)**	$ (12.2)	$ (19.9)
Investing activities	**$ (24.3)**	$ (19.5)	**$ (43.8)**	$ (19.1)	$ (35.7)
Ratio of current assets to current liabilities			**2.4 : 1**		2.5 : 1
Net debt (cash) to capitalization[9]			**(37.2)%**		(9.0)%
ROIC – Consolidated period-to-date	**12.9%**	12.9%	**25.8%**	4.5%	9.8%

[9] Net debt (cash) to capitalization is equal to net debt (cash) divided by net capitalization. Net debt (cash) is equal to interest-bearing debt less cash and cash equivalents on hand. Net capitalization is equal to net debt (cash) plus total equity.

Changes in Financial Position

Cash generated from operating activities was $97.9 million in the second quarter of 2018, up $30.8 million and $53.4 million from the first quarter of 2018 and second quarter of 2017, respectively. The increase in operating cash flows compared to the first quarter of 2018 largely reflected lower tax installment payments and a release of finished inventory in the current quarter, which contributed to favourable movements in non-cash working capital balances. Compared to the second quarter of 2017, significantly higher cash earnings in the current quarter more than offset a slight increase in non-cash working capital balances.

Cash used for financing activities was $5.1 million in the second quarter of 2018, broadly in line with the previous quarter, and down $7.1 million from the second quarter of 2017. Cash used for financing activities in the second quarter of 2018 included the Company's quarterly dividend payment of $4.1 million ($0.0625 per share).

Cash used for investing activities of $24.3 million in the current quarter primarily related to capital expenditures associated with the Company's previously announced energy projects at its Northwood and Taylor pulp mills as well as the Company's new ERP software system project, combined with maintenance-of-business capital associated with the aforementioned maintenance outages during the quarter.

Liquidity and Financial Requirements

At June 30, 2018, the Company had a $110.0 million unsecured operating loan facility which was unused, except for $10.8 million reserved for several standby letters of credit, leaving $99.2 million available and undrawn on the operating facility. On April 6, 2018, the maturity date of the Company's principal operating loan facility was extended from January 31, 2020 to April 6, 2022.

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

On March 5, 2018, the Company renewed its normal course issuer bid whereby it can purchase for cancellation up to 3,262,941 common shares or approximately 5% of its issued and outstanding common shares as of March 1, 2018. The renewed normal course issuer bid is set to expire on March 6, 2019. The Company did not purchase any common shares during the second quarter of 2018, and purchased 500 common shares at an average of $13.01 per common share in the first quarter of 2018. As at June 30, 2018 and July 25, 2018, there were 65,250,759 common shares of the Company outstanding and Canfor's ownership interest in CPPI was 54.8%. The Company may purchase shares through the balance of 2018 subject to the terms of the normal course issuer bid.

Dividends

On July 25, 2018, the Board of Directors declared a quarterly dividend of $0.0625 per share, payable on August 14, 2018 to the shareholders of record on August 7, 2018.

Licella Pulp Joint Venture

In March 2017, the Canadian Federal Government through its Sustainable Development Technology Canada program announced the funding over several years of approximately $13.2 million, contingent on future spending, to allow the Licella Pulp Joint Venture to further develop and demonstrate a technology that will economically convert biomass into biofuels and biochemicals. The Company, together with its joint venture partner, Licella, has actively continued to advance work associated with the feasibility study and risk reduction process for industrializing this biofuel and biochemical technology. In April 2018, the Company received the first installment of funding in the amount of $1.9 million.

OUTLOOK

Pulp Markets

Notwithstanding some seasonal weakness in China during the traditionally slower summer months, global softwood kraft pulp markets are projected to be balanced through the third quarter of 2018. For the months of July and August 2018, the Company announced NBSK pulp list price increases in North America of US$40 per tonne and US$30 per tonne, respectively. Results in the third quarter of 2018 will include a scheduled maintenance outage at Northwood, the Company's largest NBSK pulp mill, with a projected 28,000 tonnes of reduced NBSK pulp production, combined with higher associated maintenance costs and lower projected shipment volume.

Paper Markets

Bleached kraft paper demand is anticipated to remain stable through the third quarter of 2018.

OUTSTANDING SHARES

At July 25, 2018 there were 65,250,759 common shares of the Company outstanding.

CRITICAL ACCOUNTING ESTIMATES

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

ADOPTION OF NEW ACCOUNTING STANDARDS

Effective January 1, 2018, the Company has adopted IFRS 15 *Revenue from Contracts with Customers*. IFRS 15 supersedes IAS 18 *Revenue,* IAS 11 *Construction Contracts* and related interpretations. The standard establishes a framework based on transfer of control for determining how much and when revenue is recognized, and includes expanded disclosure requirements. The adoption of IFRS 15 has had no significant impact on the Company's interim financial statements.

Effective January 1, 2018, the Company has adopted IFRS 9 *Financial Instruments*. IFRS 9 supersedes IAS 39 *Financial Instruments: Recognition and Measurement.* The standard includes requirements for recognition, measurement, impairment and derecognition of financial assets and liabilities, as well as general hedge accounting. The adoption of IFRS 9 has had no significant impact on the Company's interim financial statements.

ACCOUNTING STANDARDS ISSUED AND NOT APPLIED

In January 2016, the International Accounting Standards Board issued IFRS 16 *Leases*, which will supersede IAS 17 *Leases* and related interpretations. The required adoption date for IFRS 16 is January 1, 2019. IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. In addition, the nature of expenses related to those leases will change as IFRS 16 replaces straight-line operating lease expense with a depreciation expense for right-of-use assets and interest expense on lease liabilities.

It is expected that IFRS 16 will have an impact on the Company's financial statements with recognition of new assets and liabilities for its operating leases. The Company is still in the process of assessing the quantitative impact on its financial statements of this new standard. The Company's future minimum lease payments, on an undiscounted basis, under non-cancellable operating leases at December 31, 2017 were $1.2 million.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

During the quarter ended June 30, 2018, 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 2017 annual statutory reports which are available on www.canfor.com or www.sedar.com.

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

SELECTED QUARTERLY FINANCIAL INFORMATION

	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016	Q3 2016
Sales and income (millions of Canadian dollars)								
Sales	**$ 396.4**	$ 359.7	$ 322.9	$ 284.9	$ 280.9	$ 309.2	$ 257.8	$ 291.6
Operating income	**$ 85.4**	$ 85.1	$ 66.8	$ 21.1	$ 31.5	$ 35.2	$ 22.9	$ 31.0
Net income	**$ 63.0**	$ 64.3	$ 45.2	$ 12.6	$ 20.2	$ 24.1	$ 10.1	$ 22.4
Per common share (Canadian dollars)								
Net income – basic and diluted	**$ 0.97**	$ 0.99	$ 0.69	$ 0.19	$ 0.31	$ 0.36	$ 0.15	$ 0.34
Book value[10]	**$ 10.62**	$ 9.72	$ 8.76	$ 7.78	$ 7.63	$ 7.55	$ 7.27	$ 7.14
Dividends declared	**$ 0.0625**	$ 0.0625	$ 0.0625	$ 0.0625	$ 0.0625	$ 0.0625	$ 0.0625	$ 0.0625
Common Share Repurchases								
Share volume repurchased (000 shares)	**-**	-	8	568	608	264	-	-
Shares repurchased (millions of Canadian dollars)	**$ -**	$ -	$ 0.1	$ 7.2	$ 7.5	$ 3.0	$ -	$ -
Statistics								
Pulp shipments (000 mt)	**328.6**	310.0	299.7	303.3	276.3	337.1	275.4	319.8
Paper shipments (000 mt)	**32.6**	32.0	35.8	34.0	35.5	33.7	33.6	35.5
Average exchange rate – US$/Cdn$	**$ 0.774**	$ 0.791	$ 0.786	$ 0.798	$ 0.744	$ 0.756	$ 0.750	$ 0.766
Average NBSK pulp list price delivered to China (US$)	**$ 910**	$ 910	$ 863	$ 670	$ 670	$ 645	$ 595	$ 595

[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.

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

After-tax impact (millions of Canadian dollars, except for per share amounts)	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016	Q3 2016
Net income, as reported	**$ 63.0**	$ 64.3	$ 45.2	$ 12.6	$ 20.2	$ 24.1	$ 10.1	$ 22.4
Change in substantively enacted tax legislation	**$ -**	$ -	$ 2.8	$ -	$ -	$ -	$ -	$ -
Net impact of above items	**$ -**	$ -	$ 2.8	$ -	$ -	$ -	$ -	$ -
Adjusted net income	**$ 63.0**	$ 64.3	$ 48.0	$ 12.6	$ 20.2	$ 24.1	$ 10.1	$ 22.4
Net income per share (EPS), as reported	**$ 0.97**	$ 0.99	$ 0.69	$ 0.19	$ 0.31	$ 0.36	$ 0.15	$ 0.34
Net impact of above items per share	**$ -**	$ -	$ 0.04	$ -	$ -	$ -	$ -	$ -
Adjusted net income per share	**$ 0.97**	$ 0.99	$ 0.73	$ 0.19	$ 0.31	$ 0.36	$ 0.15	$ 0.34

Canfor Pulp Products Inc.
Condensed Consolidated Balance Sheets

(millions of Canadian dollars, unaudited)		**As at June 30, 2018**		As at December 31, 2017
ASSETS				
Current assets				
Cash and cash equivalents	**$**	**187.9**	$	76.7
Accounts receivable - Trade		**153.3**		101.5
- Other		**11.1**		14.3
Inventories (Note 2)		**159.9**		165.5
Prepaid expenses and other		**7.2**		7.0
Total current assets		**519.4**		365.0
Property, plant and equipment and intangible assets		**540.4**		526.7
Other long-term assets		**0.6**		0.5
Total assets	**$**	**1,060.4**	$	892.2
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	**$**	**212.5**	$	161.5
Total current liabilities		**212.5**		161.5
Retirement benefit obligations (Note 4)		**82.0**		85.2
Other long-term provisions		**6.3**		6.5
Deferred income taxes, net		**66.6**		67.6
Total liabilities	**$**	**367.4**	$	320.8
EQUITY				
Share capital	**$**	**480.9**	$	480.9
Retained earnings		**212.1**		90.5
Total equity	**$**	**693.0**	$	571.4
Total liabilities and equity	**$**	**1,060.4**	$	892.2

Subsequent Events (Note 6 and Note 12)

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

APPROVED BY THE BOARD

Director, S.E. Bracken-Horrocks

Director, C.A. Pinette

Canfor Pulp Products Inc.
Condensed Consolidated Statements of Income

(millions of Canadian dollars, except per share data, unaudited)	3 months ended June 30, **2018**	3 months ended June 30, 2017	6 months ended June 30, **2018**	6 months ended June 30, 2017
Sales	**$ 396.4**	$ 280.9	**$ 756.1**	$ 590.1
Costs and expenses				
Manufacturing and product costs	**243.9**	187.5	**452.7**	393.6
Freight and other distribution costs	**40.0**	36.8	**78.1**	78.8
Amortization	**19.7**	18.5	**38.9**	37.3
Selling and administration costs	**7.4**	6.6	**15.9**	13.7
	311.0	249.4	**585.6**	523.4
Operating income	**85.4**	31.5	**170.5**	66.7
Finance expense, net	**(1.3)**	(1.7)	**(2.5)**	(3.5)
Other income (expense), net	**2.2**	(2.5)	**6.0**	(3.5)
Net income before income taxes	**86.3**	27.3	**174.0**	59.7
Income tax expense (Note 6)	**(23.3)**	(7.1)	**(46.7)**	(15.4)
Net income	**$ 63.0**	$ 20.2	**$ 127.3**	$ 44.3
Net income per common share: (in Canadian dollars)				
Attributable to equity shareholders of the Company				
- Basic and diluted (Note 7)	**$ 0.97**	$ 0.31	**$ 1.95**	$ 0.67

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

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

(millions of Canadian dollars, unaudited)	3 months ended June 30, **2018**	3 months ended June 30, 2017	6 months ended June 30, **2018**	6 months ended June 30, 2017
Net income	**$ 63.0**	$ 20.2	**$ 127.3**	$ 44.3
Other comprehensive income (loss)				
Items that will not be recycled through net income:				
Defined benefit plan actuarial gains (losses) (Note 4)	**0.1**	(10.8)	**3.4**	(10.8)
Income tax recovery (expense) on defined benefit plan actuarial losses/gains (Note 6)	**-**	2.8	**(0.9)**	2.8
Other comprehensive income (loss), net of tax	**0.1**	(8.0)	**2.5**	(8.0)
Total comprehensive income	**$ 63.1**	$ 12.2	**$ 129.8**	$ 36.3

Condensed Consolidated Statements of Changes in Equity

(millions of Canadian dollars, unaudited)	3 months ended June 30, **2018**	3 months ended June 30, 2017	6 months ended June 30, **2018**	6 months ended June 30, 2017
Share capital				
Balance at beginning of period	**$ 480.9**	$ 489.7	**$ 480.9**	$ 491.6
Share purchases (Note 7)	**-**	(4.5)	**-**	(6.4)
Balance at end of period	**$ 480.9**	$ 485.2	**$ 480.9**	$ 485.2
Retained earnings (deficit)				
Balance at beginning of period	**$ 153.1**	$ 11.9	**$ 90.5**	$ (6.9)
Net income	**63.0**	20.2	**127.3**	44.3
Defined benefit plan actuarial gains (losses), net of tax	**0.1**	(8.0)	**2.5**	(8.0)
Dividends declared	**(4.1)**	(4.1)	**(8.2)**	(8.3)
Share purchases (Note 7)	**-**	(3.0)	**-**	(4.1)
Balance at end of period	**$ 212.1**	$ 17.0	**$ 212.1**	$ 17.0
Total equity	**$ 693.0**	$ 502.2	**$ 693.0**	$ 502.2

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

Canfor Pulp Products Inc.
Condensed Consolidated Statements of Cash Flows

(millions of Canadian dollars, unaudited)	3 months ended June 30, **2018**	3 months ended June 30, 2017	6 months ended June 30, **2018**	6 months ended June 30, 2017
Cash generated from (used in):				
Operating activities				
Net income	**$ 63.0**	$ 20.2	**$ 127.3**	$ 44.3
Items not affecting cash:				
Amortization	**19.7**	18.5	**38.9**	37.3
Income tax expense	**23.3**	7.1	**46.7**	15.4
Employee future benefits expense	**1.1**	1.3	**2.2**	2.6
Finance expense, net	**1.3**	1.7	**2.5**	3.5
Other, net	**(1.3)**	0.3	**(0.4)**	(1.4)
Defined benefit plan contributions, net	**(1.7)**	(1.7)	**(3.4)**	(3.2)
Income taxes received (paid), net	**0.2**	(0.9)	**(18.9)**	(1.1)
	105.6	46.5	**194.9**	97.4
Net change in non-cash working capital (Note 8)	**(7.7)**	(2.0)	**(29.9)**	(2.2)
	97.9	44.5	**165.0**	95.2
Financing activities				
Finance expenses paid	**(1.0)**	(0.7)	**(1.7)**	(1.4)
Dividends paid	**(4.1)**	(4.1)	**(8.2)**	(8.3)
Share purchases (Note 7)	**-**	(7.4)	**(0.1)**	(10.2)
	(5.1)	(12.2)	**(10.0)**	(19.9)
Investing activities				
Additions to property, plant and equipment and intangible assets, net	**(24.8)**	(19.2)	**(44.6)**	(36.0)
Other, net	**0.5**	0.1	**0.8**	0.3
	(24.3)	(19.1)	**(43.8)**	(35.7)
Increase in cash and cash equivalents*	**68.5**	13.2	**111.2**	39.6
Cash and cash equivalents at beginning of period*	**119.4**	78.3	**76.7**	51.9
Cash and cash equivalents at end of period*	**$ 187.9**	$ 91.5	**$ 187.9**	$ 91.5

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

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

1. Basis of Preparation

These condensed consolidated interim financial statements (the "financial statements") have been prepared in accordance with International Accounting Standard ("IAS") 34 *Interim Financial Reporting*, and include the accounts of Canfor Pulp Products Inc. ("CPPI") and its subsidiary entities, hereinafter referred to as "CPPI" or "the Company." At June 30, 2018 and July 25, 2018, Canfor Corporation ("Canfor") held a 54.8% 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, 2017, available at www.canfor.com or www.sedar.com.

Effective January 1, 2018, the Company has adopted IFRS 15 *Revenue from Contracts with Customers*. IFRS 15 supersedes IAS 18 *Revenue,* IAS 11 *Construction Contracts* and related interpretations. The standard establishes a framework based on transfer of control for determining how much and when revenue is recognized, and includes expanded disclosure requirements. The adoption of IFRS 15 has had no significant impact on the Company's interim financial statements.

Effective January 1, 2018, the Company has adopted IFRS 9 *Financial Instruments*. IFRS 9 supersedes IAS 39 *Financial Instruments: Recognition and Measurement.* The standard includes requirements for recognition, measurement, impairment and derecognition of financial assets and liabilities, as well as general hedge accounting. The adoption of IFRS 9 has had no significant impact on the Company's interim financial statements.

Certain comparative amounts for the prior period have been reclassified to conform to the current period's presentation.

These financial statements were authorized for issue by the Company's Board of Directors on July 25, 2018.

Accounting Standards Issued and Not Applied

In January 2016, the International Accounting Standards Board issued IFRS 16 *Leases*, which will supersede IAS 17 *Leases* and related interpretations. The required adoption date for IFRS 16 is January 1, 2019. IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. In addition, the nature of expenses related to those leases will change as IFRS 16 replaces straight-line operating lease expense with a depreciation expense for right-of-use assets and interest expense on lease liabilities.

It is expected that IFRS 16 will have an impact on the Company's financial statements with recognition of new assets and liabilities for its operating leases. The Company is still in the process of assessing the quantitative impact on its financial statements of this new standard. The Company's future minimum lease payments, on an undiscounted basis, under non-cancellable operating leases at December 31, 2017 were $1.2 million.

2. Inventories

(millions of Canadian dollars, unaudited)		**As at June 30, 2018**		As at December 31, 2017
Pulp	**$**	**64.1**	$	78.5
Paper		**17.5**		14.9
Wood chips and logs		**24.1**		19.9
Materials and supplies		**54.2**		52.2
	$	**159.9**	$	165.5

Inventory balances are stated after inventory write-downs from cost to net realizable value. There were no inventory write-downs at June 30, 2018 or December 31, 2017.

3. Operating Loans

(millions of Canadian dollars, unaudited)		**As at June 30, 2018**		As at December 31, 2017
Operating loan facility	**$**	**110.0**	$	110.0
Letters of credit		**(10.8)**		(9.2)
Total available operating loan facility	**$**	**99.2**	$	100.8

On April 6, 2018, the maturity date of the Company's principal operating loan facility was extended from January 31, 2020 to April 6, 2022. 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. No amounts were drawn on the operating loan facility as at June 30, 2018 (December 31, 2017 - nil).

As at June 30, 2018 the Company was in compliance with all covenants relating to its operating loans.

4. Employee Future Benefits

For the three months ended June 30, 2018, defined benefit plan actuarial gains of $0.1 million (before tax) were recognized in other comprehensive income (loss), principally reflecting the return generated on plan assets. For the six months ended June 30, 2018, defined benefit plan actuarial gains of $3.4 million (before tax) were recognized in other comprehensive income (loss). For the three and six months ended June 30, 2017, the Company recognized before tax actuarial losses in other comprehensive income (loss) of $10.8 million.

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

	Defined Benefit Pension Plans	**Other Benefit Plans**
June 30, 2018	**3.6%**	**3.6%**
March 31, 2018	3.6%	3.6%
December 31, 2017	3.4%	3.4%
June 30, 2017	3.5%	3.5%
March 31, 2017	3.9%	3.9%
December 31, 2016	3.9%	3.9%

5. Financial Instruments

The Company's financial assets are measured at amortized cost. Financial liabilities are measured at amortized cost with the exception of certain derivative instruments, which are measured at fair value through profit and loss.

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.

At times, 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 June 30, 2018 and December 31, 2017, the Company had no derivative financial instruments outstanding.

6. Income Taxes

(millions of Canadian dollars, unaudited)		3 months ended June 30, **2018**		2017		6 months ended June 30, **2018**		2017
Current	**$**	**(23.1)**	$	(5.3)	**$**	**(48.7)**	$	(16.3)
Deferred		**(0.2)**		(1.8)		**2.0**		0.9
Income tax expense	**$**	**(23.3)**	$	(7.1)	**$**	**(46.7)**	$	(15.4)

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

(millions of Canadian dollars, unaudited)		3 months ended June 30, **2018**		2017		6 months ended June 30, **2018**		2017
Income tax expense at statutory rate – 27% (2017 – 26.0%)	**$**	**(23.3)**	$	(7.1)	**$**	**(47.0)**	$	(15.5)
Add:								
Entities with different income tax rates and other tax adjustments		**-**		-		**0.3**		0.1
Income tax expense	**$**	**(23.3)**	$	(7.1)	**$**	**(46.7)**	$	(15.4)

In addition to the amounts recorded to net income, a tax expense of $0.9 million was recorded in other comprehensive income (loss) for the six months ended June 30, 2018 in relation to the actuarial gains on defined benefit plans (three and six months ended June 30, 2017 – recovery of $2.8 million). For the three months ended June 30, 2018, no tax expense on actuarial gains on defined benefit plans was recorded in other comprehensive income (loss).

Subsequent to quarter-end, the Company made 2018 income tax instalment payments of $31.0 million.

7. Earnings per Share and Normal Course Issuer Bid

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

	3 months ended June 30, **2018**	2017	6 months ended June 30, **2018**	2017
Weighted average number of common shares	**65,250,759**	66,181,210	**65,250,767**	66,404,529

On March 5, 2018, the Company renewed its normal course issuer bid whereby it can purchase for cancellation up to 3,262,941 common shares or approximately 5% of its issued and outstanding common shares as of March 1, 2018. The renewed normal course issuer bid is set to expire on March 6, 2019. During the three months ended June 30, 2018, the Company did not purchase any common shares. During the six months ended June 30, 2018, the Company purchased 500 common shares at an average of $13.01 per common share. As at June 30, 2018 and July 25, 2018, there were 65,250,759 common shares of the Company outstanding and Canfor's ownership interest in CPPI was 54.8%.

8. Net Change in Non-Cash Working Capital

(millions of Canadian dollars, unaudited)		3 months ended June 30, **2018**		2017		6 months ended June 30, **2018**		2017
Accounts receivable	**$**	**(29.2)**	$	11.4	**$**	**(50.4)**	$	(16.9)
Inventories		**10.2**		(10.9)		**5.6**		2.1
Prepaid expenses and other		**2.5**		(0.7)		**(0.2)**		2.8
Accounts payable and accrued liabilities		**8.8**		(1.8)		**15.1**		9.8
Net increase in non-cash working capital	**$**	**(7.7)**	$	(2.0)	**$**	**(29.9)**	$	(2.2)

9. Segment Information

The Company has two reportable segments, pulp and paper, 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.

Information regarding the operations of each reportable segment is included in the following table:

(millions of Canadian dollars, unaudited)	Pulp	Paper	Unallocated	Elimination Adjustment	Consolidated
3 months ended June 30, 2018					
Sales to external customers	**$ 351.5**	**$ 44.7**	**$ 0.2**	**$ -**	**$ 396.4**
Sales to other segments	**27.5**	**-**	**-**	**(27.5)**	**-**
Operating income (loss)	**86.6**	**1.5**	**(2.7)**	**-**	**85.4**
Amortization	**18.6**	**1.1**	**-**	**-**	**19.7**
Capital expenditures[1]	**23.2**	**1.6**	**-**	**-**	**24.8**
3 months ended June 30, 2017					
Sales to external customers	$ 236.2	$ 44.6	$ 0.1	$ -	$ 280.9
Sales to other segments	22.9	-	-	(22.9)	-
Operating income (loss)	28.0	6.6	(3.1)	-	31.5
Amortization	17.5	1.0	-	-	18.5
Capital expenditures[1]	19.1	0.1	-	-	19.2
6 months ended June 30, 2018					
Sales to external customers	**$ 669.0**	**$ 86.7**	**$ 0.4**	**$ -**	**$ 756.1**
Sales to other segments	**56.4**	**-**	**-**	**(56.4)**	**-**
Operating income (loss)	**173.0**	**4.4**	**(6.9)**	**-**	**170.5**
Amortization	**36.7**	**2.2**	**-**	**-**	**38.9**
Capital expenditures[1]	**41.7**	**2.9**	**-**	**-**	**44.6**
Identifiable assets	**803.4**	**58.2**	**198.8**	**-**	**1,060.4**
6 months ended June 30, 2017					
Sales to external customers	$ 503.6	$ 86.2	$ 0.3	$ -	$ 590.1
Sales to other segments	44.2	-	-	(44.2)	-
Operating income (loss)	59.1	13.7	(6.1)	-	66.7
Amortization	35.4	1.9	-	-	37.3
Capital expenditures[1]	35.7	0.3	-	-	36.0
Identifiable assets	732.0	51.6	101.0	-	884.6

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

10. Related Party Transactions

For the six months ended June 30, 2018, the Company depended on Canfor to provide approximately 63% (six months ended June 30, 2017 - 62%) 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, 2017 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:

	3 months ended June 30,		6 months ended June 30,	
(millions of Canadian dollars, unaudited)	**2018**	2017	**2018**	2017
Transactions				
Purchase of wood chips and other	**$ 64.0**	$ 45.9	**$ 117.1**	$ 87.7

(millions of Canadian dollars, unaudited)	**As at June 30, 2018**	As at December 31, 2017
Balance Sheet		
Included in accounts payable and accrued liabilities	**$ 18.1**	$ 13.1

11. Licella Pulp Joint Venture

On May 27, 2016, CPPI and Licella Fibre Fuel Pty Ltd. ("Licella") agreed to form a joint venture under the name Licella Pulp Joint Venture to investigate opportunities to integrate Licella's Catalytic Hydrothermal Reactor platform into CPPI's pulp mills to economically convert biomass into next generation biofuels and biochemicals. Licella is a subsidiary of Ignite Energy Resources Ltd. ("IER") an Australian energy technology development company.

Under IFRS 11 *Joint Arrangements*, the joint venture is classified as a joint operation and CPPI recognizes its assets, liabilities and transactions, including its share of those incurred jointly, in its consolidated financial statements. For the three months ended June 30, 2018, the Company's share of the joint venture's expenses was $0.5 million (three months ended June 30, 2017 - $0.2 million), which have been recognized in manufacturing and product costs. For the six months ended June 30, 2018, the Company's share of the joint venture's expenses was $1.0 million (six months ended June 30, 2017 - $0.5 million). The Company is required to contribute the first $20.0 million of any funding requirements, including cash and non-cash contributions, to the joint venture, of which $2.8 million has been contributed as at June 30, 2018.

In March 2017, the Canadian Federal Government through its Sustainable Development Technology Canada program announced the funding over several years of approximately $13.2 million, contingent on future spending. Advance funding of $1.9 million was received in April 2018 for the period October 1, 2017 through September 30, 2018. Of this amount, $0.3 million has been recognized as an offset to costs within Manufacturing and product costs for the three and six months ended June 30, 2018.

12. Subsequent Event

On July 25, 2018, the Board of Directors declared a quarterly dividend of $0.0625 per share, payable on August 14, 2018 to the shareholders of record on August 7, 2018.