

### FOR IMMEDIATE RELEASE

## CANFOR PULP PRODUCTS INC. ANNOUNCES THIRD QUARTER 2017 RESULTS AND QUARTERLY DIVIDEND

October 20, 2017- Vancouver, B.C. - Canfor Pulp Products Inc. ("CPPI") (TSX: CFX) today reported net income of \$12.6 million, or \$0.19 per share, for the third quarter of 2017, compared to \$20.2 million, or \$0.31 per share, for the second quarter of 2017 and \$22.4 million, or \$0.34 per share, for the third quarter of 2016. For the nine months ended September 30, 2017, the Company's net income was \$56.9 million, or \$0.86 per share, compared to \$47.7 million, or \$0.70 per share, for the nine months ended September 30, 2016.

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

(millions of Canadian dollars, except per share amounts)	Q3 2017	Q2 2017	YTD 2017	Q3 2016	YTD 2016
Sales	\$ 284.9	\$ 280.9	\$ 875.0	\$ 291.6	\$ 844.1
Operating income before amortization	\$ 39.4	\$ 50.0	\$ 143.4	\$ 50.0	\$ 129.9
Operating income	\$ 21.1	\$ 31.5	\$ 87.8	\$ 31.0	\$ 75.3
Net income	\$ 12.6	\$ 20.2	\$ 56.9	\$ 22.4	\$ 47.7
Net income per share, basic and diluted	\$ 0.19	\$ 0.31	\$ 0.86	\$ 0.34	\$ 0.70

The Company reported operating income of \$21.1 million for the third quarter of 2017, down \$10.4 million from the \$31.5 million reported for the second quarter of 2017. While pulp shipments and production were both up quarter-over-quarter, the related increase in operating income was more than offset by the impact on unit pulp and paper sales realizations of a significantly stronger Canadian dollar.

Entering the third quarter of 2017, global pulp markets showed signs of weakness; however, as the quarter progressed, demand and pricing rebounded particularly in China, in part due to China's new regulations restricting the import of recycled mixed paper. The resulting positive price momentum will largely be realized in the fourth quarter of 2017, reflecting the timing of shipments (versus orders). As a result average Northern Bleached Softwood Kraft ("NBSK") pulp US-dollar list prices to China were consistent quarter-over-quarter; however, NBSK pulp unit sales realizations experienced a moderate decrease, due to a 5 cent or 7% stronger Canadian dollar. Bleached Chemi-Thermo Mechanical Pulp ("BCTMP") US-dollar list prices trended positively through the third quarter of 2017, but BCTMP unit sales realizations were also negatively impacted by a stronger Canadian dollar. Energy revenues were well up in the current quarter reflecting a return to more normalized power generation levels.

Pulp shipments and production volumes were up 10% and 11%, respectively, from the previous quarter, principally reflecting a decline in scheduled maintenance outages. In the current quarter, the Company completed a scheduled maintenance outage at the Intercontinental NBSK pulp mill which reduced pulp production by approximately 10,000 tonnes. In the second quarter, a scheduled maintenance outage at the Company's larger Northwood NBSK pulp mill resulted in approximately 33,000 tonnes of reduced production. Shipments for the third quarter of 2017 were also impacted by a 14,000 tonne vessel slippage into early October. Pulp unit manufacturing costs improved from the previous quarter, largely reflecting the lower quarter-over-quarter scheduled maintenance outages coupled with seasonally lower energy prices and usage.

Operating income in the Company's paper segment at \$4.9 million was down \$1.7 million from the second quarter of 2017, largely reflecting a modest decline in paper unit sales realizations, due to higher market-driven US-dollar paper pricing being more than offset by the stronger Canadian dollar. Partially offsetting this decline in paper unit sales realizations was a moderate improvement in paper unit manufacturing costs, primarily driven by lower slush pulp costs, combined with a decline in maintenance spend.

Commenting on the Company's third quarter of 2017 results, CPPI's Chief Executive Officer, Don Kayne said, "Despite the stronger Canadian dollar, market conditions were somewhat better than anticipated, allowing us to generate solid results for the quarter. With global pulp markets strong as we head into the fourth quarter, and our major NBSK pulp maintenance shutdowns now behind us, we are very focused on optimizing our production performance and sales mix through the balance of the year."

For the month of October 2017, the Company announced increases of US\$105 per tonne and US\$30 per tonne for NBSK pulp list prices to China and North America, respectively, reflecting a surge in demand, principally from China,

as well as supply disruptions. Global pulp markets are anticipated to remain strong through the fourth quarter of 2017.

Results in the fourth quarter of 2017 will reflect a scheduled outage at the Taylor pulp mill to complete preliminary work associated with the previously announced energy project, with a projected 3,000 tonnes of reduced BCTMP production as well as lower projected shipment volumes.

On October 20, 2017, the Board of Directors declared a quarterly dividend of \$0.0625 per share, payable on November 9, 2017 to the shareholders of record on November 2, 2017.

#### **Additional Information and Conference Call**

A conference call to discuss the third quarter's financial and operating results will be held on Monday, October 23, 2017 at 8:00 AM Pacific time. To participate in the call, please dial Toll-Free 888-390-0546. For instant replay access until November 6, 2017, please dial Toll-Free 888-390-0541 and enter participant pass code 919920#. The conference call will be webcast live and will be available at [www.canfor.com](http://www.canfor.com). This news release, the attached financial statements and a presentation used during the conference call can be accessed via the Company's website at <http://www.canfor.com/investor-relations/overview>.

#### **Forward Looking Statements**

Certain statements in this press release 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.

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

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**Canfor Pulp Products Inc.**  
**Third Quarter 2017**  
**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 September 30, 2017 relative to the quarters ended June 30, 2017 and September 30, 2016, and the financial position of the Company at September 30, 2017. It should be read in conjunction with CPPI's unaudited interim consolidated financial statements and accompanying notes for the quarters ended, September 30, 2017 and 2016, as well as the 2016 annual MD&A and the 2016 audited consolidated financial statements and notes thereto, which are included in CPPI's Annual Report for the year ended December 31, 2016 (available at [www.canfor.com](http://www.canfor.com)). The financial information in this interim MD&A has been prepared in accordance with International Financial Reporting Standards ("IFRS"), which is the required reporting framework for Canadian publicly accountable enterprises.*

*Throughout this discussion, reference is made to Operating Income (Loss) before Amortization which CPPI considers to be a relevant indicator for measuring trends in the Company's performance and its ability to generate funds to meet its debt service and capital expenditure requirements, and to pay dividends. Reference is also made to Adjusted Net Income (Loss) (calculated as Net Income (Loss) less specific items affecting comparability with prior periods) and Adjusted Net Income (Loss) per Share (calculated as Adjusted Net Income (Loss) divided by the weighted average number of shares outstanding during the period). Operating Income (Loss) before Amortization, Adjusted Net Income (Loss) and Adjusted Net Income (Loss) per Share are not generally accepted earnings measures and should not be considered as an alternative to net income or cash flows as determined in accordance with IFRS. As there is no standardized method of calculating these measures, CPPI's Operating Income (Loss) before Amortization, Adjusted Net Income (Loss) and Adjusted Net Income (Loss) per Share may not be directly comparable with similarly titled measures used by other companies. Reconciliations of Operating Income (Loss) before Amortization to Operating Income (Loss) and Adjusted Net Income (Loss) to Net Income (Loss) reported in accordance with IFRS are included in this MD&A. Throughout this discussion reference is made to the current quarter which refers to the results for the third quarter of 2017.*

*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 October 20, 2017.*

**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.*

### THIRD QUARTER 2017 OVERVIEW

#### Selected Financial Information and Statistics

(millions of Canadian dollars, except per share amounts)	Q3 2017	Q2 2017	YTD 2017	Q3 2016	YTD 2016
Operating income (loss) by segment:					
Pulp	\$ 19.0	\$ 28.0	\$ 78.1	\$ 26.7	\$ 61.5
Paper	\$ 4.9	\$ 6.6	\$ 18.6	\$ 7.2	\$ 21.6
Unallocated	\$ (2.8)	\$ (3.1)	\$ (8.9)	\$ (2.9)	\$ (7.8)
<b>Total operating income</b>	<b>\$ 21.1</b>	<b>\$ 31.5</b>	<b>\$ 87.8</b>	<b>\$ 31.0</b>	<b>\$ 75.3</b>
Add: Amortization <sup>1</sup>	\$ 18.3	\$ 18.5	\$ 55.6	\$ 19.0	\$ 54.6
<b>Total operating income before amortization</b>	<b>\$ 39.4</b>	<b>\$ 50.0</b>	<b>\$ 143.4</b>	<b>\$ 50.0</b>	<b>\$ 129.9</b>
Add (deduct):					
Working capital movements	\$ 1.0	\$ (2.0)	\$ (1.2)	\$ (3.9)	\$ 15.2
Defined benefit pension plan contributions, net	\$ (1.6)	\$ (1.7)	\$ (4.8)	\$ (3.6)	\$ (6.2)
Income taxes paid, net	\$ (16.5)	\$ (0.9)	\$ (17.6)	\$ (18.6)	\$ (32.8)
Other operating cash flows, net	\$ (1.2)	\$ (0.9)	\$ (3.5)	\$ 2.2	\$ (3.2)
<b>Cash from operating activities</b>	<b>\$ 21.1</b>	<b>\$ 44.5</b>	<b>\$ 116.3</b>	<b>\$ 26.1</b>	<b>\$ 102.9</b>
Add (deduct):					
Dividends paid	\$ (4.1)	\$ (4.1)	\$ (12.4)	\$ (4.1)	\$ (12.7)
Finance expenses paid	\$ (0.9)	\$ (0.7)	\$ (2.3)	\$ (0.8)	\$ (2.1)
Capital additions, net	\$ (19.0)	\$ (19.2)	\$ (55.0)	\$ (14.0)	\$ (45.7)
Advances to Licella	\$ -	\$ -	\$ -	\$ -	\$ (3.5)
Share purchases	\$ (7.5)	\$ (7.4)	\$ (17.7)	\$ (0.3)	\$ (24.7)
Other, net	\$ 0.2	\$ 0.1	\$ 0.5	\$ -	\$ 0.2
<b>Change in cash / operating loans</b>	<b>\$ (10.2)</b>	<b>\$ 13.2</b>	<b>\$ 29.4</b>	<b>\$ 6.9</b>	<b>\$ 14.4</b>
Net income	\$ 12.6	\$ 20.2	\$ 56.9	\$ 22.4	\$ 47.7
Net income per share (EPS)	\$ 0.19	\$ 0.31	\$ 0.86	\$ 0.34	\$ 0.70
ROIC – Consolidated period-to-date <sup>2</sup>	2.7%	4.5%	12.5%	4.7%	10.3%
<b>Average exchange rate (US\$ per C\$1.00)<sup>3</sup></b>	<b>\$ 0.798</b>	<b>\$ 0.744</b>	<b>\$ 0.765</b>	<b>\$ 0.766</b>	<b>\$ 0.756</b>

<sup>1</sup> Amortization includes amortization of certain capitalized major maintenance costs.

<sup>2</sup> 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.

<sup>3</sup> Source – Bank of Canada (monthly average rate for the period).

The Company reported operating income of \$21.1 million for the third quarter of 2017, down \$10.4 million from the \$31.5 million reported for the second quarter of 2017. Results reflect the significant impact of a 5 cent or 7% stronger Canadian dollar on average pulp and paper unit sales realizations in the current quarter. This Canadian dollar impact more than offset the benefit of a quarter-over-quarter decline in scheduled maintenance outages, which resulted in higher pulp shipments and pulp production, coupled with improved pulp and paper unit manufacturing costs and increased energy revenues. Despite average NBSK US-dollar list prices to China being in line with the previous quarter, NBSK pulp unit sales realizations experienced a moderate decrease, largely due to the stronger Canadian dollar. BCTMP unit sales realizations were also negatively impacted by a stronger Canadian dollar. Pulp shipments and production volumes were up 10% and 11%, respectively, from the previous quarter, principally reflecting a decline in scheduled maintenance outages. In the current quarter, the Company completed a scheduled maintenance outage at the Intercontinental NBSK pulp mill which reduced pulp production by approximately 10,000 tonnes; in the second quarter, a scheduled maintenance outage at the Company's larger Northwood NBSK pulp mill resulted in approximately 33,000 tonnes of reduced production. Shipments for the third quarter of 2017 were also impacted by a 14,000 tonne vessel slippage into early October. Pulp unit manufacturing costs improved from the previous quarter, largely reflecting the aforementioned lower quarter-over-quarter scheduled maintenance outages coupled with seasonally lower energy prices and usage.

Compared to the third quarter of 2016, operating income in the current quarter was down \$9.9 million, with improvements in both average NBSK pulp and BCTMP unit sales realizations reflecting higher US-dollar market prices, offset in part by a 4% stronger Canadian dollar, outweighed by lower shipments and a moderate increase in pulp unit manufacturing costs, largely attributable to higher market-based fibre costs. Pulp shipments and pulp production declined 5% and 2%, respectively, when compared to the third quarter of 2016, with shipments reflecting more scheduled downtime and the aforementioned vessel shipment slippage in the current quarter.

## OPERATING RESULTS BY BUSINESS SEGMENT

### Pulp

#### Selected Financial Information and Statistics – Pulp

(millions of Canadian dollars, unless otherwise noted)	Q3 2017	Q2 2017	YTD 2017	Q3 2016	YTD 2016
Sales	\$ 243.6	\$ 236.2	\$ 747.2	\$ 247.9	\$ 708.3
Operating income before amortization <sup>4</sup>	\$ 36.3	\$ 45.5	\$ 130.8	\$ 44.8	\$ 113.3
Operating income	\$ 19.0	\$ 28.0	\$ 78.1	\$ 26.7	\$ 61.5
Average NBSK pulp price delivered to China – US\$ <sup>5</sup>	\$ 670	\$ 670	\$ 662	\$ 595	\$ 601
Average NBSK pulp price delivered to China – Cdn\$ <sup>5</sup>	\$ 839	\$ 901	\$ 865	\$ 777	\$ 795
Production – pulp (000 mt)	305.1	275.2	897.4	312.5	913.9
Shipments – pulp (000 mt)	303.3	276.3	916.7	319.8	926.1

<sup>4</sup> Amortization includes amortization of certain capitalized major maintenance costs.

<sup>5</sup> 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 pulp markets weakened slightly in July primarily following the end of spring maintenance season. By the end of August and through September, however, demand had rebounded, particularly in China, in part due to China's new regulations restricting the import of recycled mixed paper. The resulting positive price momentum will largely be realized in the fourth quarter of 2017, reflecting the timing of shipments (versus orders).

Global shipments of bleached softwood pulp increased by 3.1% for the first eight months of 2017 when compared to the first eight months of 2016, driven primarily by increased year-to-date shipments to North America and Asian countries, including China<sup>6</sup>.

### Sales

The Company's pulp shipments for the third quarter of 2017 were 303,300 tonnes, up 27,000 tonnes, or 10%, from the previous quarter and down 16,500 tonnes, or 5%, from the third quarter of 2016. When compared to the previous quarter, the increase in pulp shipments was primarily due to increased pulp production in the current quarter combined with an increase in shipments to North America and Asia, offset in part by the slippage of a 14,000 tonne vessel shipment to Asia into October 2017. The reduction in pulp shipments when compared to the third quarter of 2016, for the most part reflected the delayed vessel shipment and, to a lesser extent, lower pulp production in the current quarter.

The average China US-dollar NBSK pulp list price (as published by RISI), at US\$670 per tonne, was in line with the second quarter of 2017. The weakening of the global pulp markets and US-dollar pricing in the early part of the current quarter, combined with the unfavourable impact of a 5 cent or 7% stronger Canadian dollar, more than offset the improved prices later in the quarter, leading to a moderate decrease in average NBSK pulp unit sales realizations compared to the previous quarter. Average BCTMP unit sales realizations also experienced a moderate decline when compared to the second quarter of 2017, largely as a result of the stronger Canadian dollar.

<sup>6</sup> As reported PPPC statistics.

Compared to the third quarter of 2016, the average China US-dollar NBSK pulp list price in the current quarter was up US\$75 per tonne, or 13%. Average NBSK pulp unit sales realizations were only slightly higher than the third quarter of 2016, however, as higher market list prices were largely offset by a 3 cent, or 4%, strengthening of the Canadian dollar combined with the impact of timing of shipments (versus orders) and increases in customer discounts. BCTMP unit sales realizations were notably higher compared to the third quarter of 2016, reflecting the significant strength in BCTMP market demand year-over-year, which more than offset the stronger Canadian dollar.

Compared to the previous quarter, energy revenues in the third quarter of 2017 returned to more normalized levels, reflecting an increase in turbine operating days quarter-over-quarter (related to less scheduled maintenance outages), combined with higher energy prices in the current quarter. Energy revenues in the current quarter were marginally lower when compared to the third quarter of 2016, primarily a result of lower power generation, due to the larger scheduled outage at the Company's NBSK pulp mills in the current quarter.

#### Operations

Pulp production in the third quarter of 2017 at 305,100 tonnes was up 29,900 tonnes, or 11%, from the second quarter of 2017 and down 7,400 tonnes, or 2%, from the third quarter of 2016. Pulp production in the current quarter primarily increased as a result of a decline in scheduled maintenance outages quarter-over-quarter. During the third quarter of 2017, the Company completed a scheduled maintenance outage at the Intercontinental NBSK pulp mill, which reduced pulp production by approximately 10,000 tonnes. This compared to the second quarter of 2017, which included scheduled maintenance outages at the Northwood NBSK pulp mill as well as at the Taylor BCTMP mill, which when combined with other operational upsets, reduced pulp production by approximately 40,000 tonnes.

When compared to the third quarter of 2016, pulp production decreased primarily due to the larger scheduled maintenance outage in the current quarter, and lower operating rates. In the third quarter of 2016, the Company completed scheduled maintenance outages at the Prince George NBSK pulp mill and the Taylor BCTMP mill, reducing pulp production by 3,700 tonnes of NBSK pulp and 3,100 tonnes of BCTMP, respectively.

Pulp unit manufacturing costs saw a modest decrease from the previous quarter, largely reflecting the quarter-over-quarter impacts of the aforementioned scheduled maintenance outages coupled with seasonally lower energy prices and usage in the current quarter, offsetting a slight increase in fibre costs. Higher fibre costs principally reflected a larger proportion of higher-cost whole log chips, mitigated slightly by a decline in prices for sawmill residual chips in the current quarter.

Compared to the third quarter of 2016, pulp unit manufacturing costs moderately increased, principally due to higher fibre costs and to a lesser extent, higher chemical pricing, marginally offset by the timing of certain maintenance spend. Increased fibre costs in the current period largely reflected the higher market prices for sawmill residual chips combined with a larger proportion of higher-cost whole log chips.

**Paper**  
**Selected Financial Information and Statistics – Paper**

(millions of Canadian dollars unless otherwise noted)	<b>Q3 2017</b>	<b>Q2 2017</b>	<b>YTD 2017</b>	<b>Q3 2016</b>	<b>YTD 2016</b>
Sales	\$ 41.2	\$ 44.6	\$ 127.4	\$ 43.6	\$ 134.3
Operating income before amortization <sup>7</sup>	\$ 5.9	\$ 7.6	\$ 21.5	\$ 8.1	\$ 24.4
Operating income	\$ 4.9	\$ 6.6	\$ 18.6	\$ 7.2	\$ 21.6
Production – paper (000 mt)	34.8	33.6	103.0	32.4	99.8
Shipments – paper (000 mt)	34.0	35.5	103.2	35.5	108.9

<sup>7</sup> Amortization includes amortization of certain capitalized major maintenance costs.

Markets

Global kraft paper markets were healthy through the third quarter of 2017. The positive pricing momentum and demand from North American markets experienced in the first half of 2017 continued through the current quarter, while certain offshore markets, particularly Asia, saw increasing demand as a result of a tightening of supply.

Sales

The Company's paper shipments in the third quarter of 2017 at 34,000 tonnes, were down 1,500 tonnes when compared to both the previous quarter and the same quarter in 2016. The reduction in paper shipments from the second quarter of 2017 largely reflected a decline in shipments into the North American market, as the previous quarter experienced higher-than-normal shipments into this market. The decrease in paper shipments from the third quarter of 2016 was principally the result of a drawdown of inventory in the third quarter of 2016.

Paper unit sales realizations in the third quarter of 2017 saw a modest decrease when compared to the previous quarter as higher market-driven US-dollar pricing was more than offset by the 7% stronger Canadian dollar and a lower proportion of shipments to the North American market. Compared to the same quarter of 2016, paper unit sales realizations experienced a slight decline, as a 4% stronger Canadian dollar offset more favorable pricing, particularly in North America.

Operations

Paper production for the third quarter of 2017 was 34,800 tonnes, up 1,200 tonnes from the second quarter of 2017 and up 2,400 tonnes when compared to the same quarter of 2016. Compared to the previous quarter, the higher paper production primarily reflected stronger operating rates in the current quarter. The increase in paper production from the third quarter of 2016 was largely due to a nine-day scheduled maintenance outage in the comparative period. No maintenance outages occurred in the current quarter or in the second quarter of 2017.

Paper unit manufacturing costs moderately decreased when compared to the second quarter of 2017, mostly due to lower slush pulp costs, principally reflecting lower average NBSK sales realizations, combined with decreases in maintenance spend in the current quarter. Paper unit manufacturing costs were substantially in line with the third quarter of 2016, as the impact of the scheduled maintenance outage in the comparative period was offset by higher slush pulp costs, driven by higher average NBSK sales realizations, in the current quarter.

## Unallocated Items

### Selected Financial Information

(millions of Canadian dollars)	Q3 2017	Q2 2017	YTD 2017	Q3 2016	YTD 2016
Corporate costs	\$ (2.8)	\$ (3.1)	\$ (8.9)	\$ (2.9)	\$ (7.8)
Finance expense, net	\$ (1.8)	\$ (1.7)	\$ (5.3)	\$ (1.6)	\$ (4.7)
Other income (expense), net	\$ (3.0)	\$ (2.5)	\$ (6.5)	\$ 0.8	\$ (5.3)

Corporate costs at \$2.8 million for the third quarter of 2017 were down \$0.3 million when compared with the second quarter of 2017 and in line with the third quarter of 2016.

Net finance expense for the third quarter of 2017 at \$1.8 million was broadly in line with both comparative periods and related primarily to interest expense associated with the Company's employee future benefit plans and term debt as well as fees associated with the Company's outstanding letters of credit.

Other expenses, net of \$3.0 million in the third quarter of 2017 principally related to unfavourable foreign exchange movements on US-dollar denominated working capital balances, and were consistent with foreign exchange movements experienced in the second quarter of 2017. In the third quarter of 2016, foreign exchange movements were more modest.

### Other Comprehensive Income (Loss)

In the third quarter of 2017, the Company recorded an after-tax gain of \$4.6 million in relation to changes in the valuation of the Company's employee future benefit plans. The gain in the current quarter principally reflected a 0.3% increase in the discount rate used to value the employee future benefit plans partially offset by a return on plan assets lower than the discount rate. This compared to after-tax losses of \$8.0 million and \$1.1 million, in the previous quarter and in the third quarter of 2016, respectively.

### 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)	Q3 2017	Q2 2017	YTD 2017	Q3 2016	YTD 2016
Increase (decrease) in cash and cash equivalents	\$ (10.2)	\$ 13.2	\$ 29.4	\$ 6.9	\$ 14.4
Operating activities	\$ 21.1	\$ 44.5	\$ 116.3	\$ 26.1	\$ 102.9
Financing activities	\$ (12.5)	\$ (12.2)	\$ (32.4)	\$ (5.2)	\$ (39.5)
Investing activities	\$ (18.8)	\$ (19.1)	\$ (54.5)	\$ (14.0)	\$ (49.0)
Ratio of current assets to current liabilities			2.6 : 1		2.4 : 1
Net debt to capitalization			(6.6)%		3.7%
ROIC – Consolidated period-to-date	2.7%	4.5%	12.5%	4.7%	10.3%

### Changes in Financial Position

Cash generated from operating activities was \$21.1 million in the third quarter of 2017, down \$23.4 million from the previous quarter and down \$5.0 million from the third quarter of 2016. The decrease in operating cash flows compared to the immediately preceding quarter principally related to lower cash earnings in the current quarter. Further contributing to the lower operating cash in the current quarter was higher income tax payments. Compared to the third quarter of 2016, lower cash earnings were partially offset by favourable movements in non-cash working capital balances in the current quarter, with lower accounts receivable and higher accounts payable and accrued liabilities in the current quarter.

Cash used for financing activities was \$12.5 million in the third quarter of 2017, up \$0.3 million from the previous quarter and \$7.3 million higher compared to the third quarter of 2016. Cash used for financing activities in the current quarter included the Company's quarterly dividend payment of \$4.1 million (\$0.0625 per share) as well as \$7.5 million for shares repurchased under the Company's normal course issuer bid. This compared to \$7.4 million paid for shares repurchased in the second quarter of 2017. In the third quarter of 2016, the Company did not repurchase common shares under its normal course issuer bid; however, \$0.3 million was paid in that period for

common shares that were repurchased at the end of the second quarter of 2016 (see further discussion of the shares purchased under the normal course issuer bid in the following "Liquidity and Financial Requirements" section).

Cash used for investing activities of \$18.8 million in the current quarter was primarily related to maintenance-of-business capital associated with the Intercontinental NBSK pulp mill's scheduled maintenance outage during the quarter as well as capital expenditures associated with the previously announced energy projects.

### **Liquidity and Financial Requirements**

At September 30, 2017, the Company had a \$110.0 million unsecured operating loan facility which was unused, except for \$9.0 million reserved for several standby letters of credit, leaving \$101.0 million available and undrawn on the operating facility.

CPPI has \$50.0 million of floating interest rate term debt.

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

On March 7, 2017, the Company renewed its normal course issuer bid whereby it can purchase for cancellation up to 3,332,038 common shares or approximately 5% of its issued and outstanding common shares as of March 1, 2017. The renewed normal course issuer bid is set to expire on March 6, 2018. During the third quarter of 2017, CPPI purchased 568,425 common shares for \$7.2 million (an average of \$12.67 per common share). For the nine months ended September 30, 2017, CPPI purchased 1,440,528 common shares for \$17.7 million (an average of \$12.29 per common share).

As a result of the Company's share purchases in the current quarter, Canfor's ownership interest in CPPI increased to 54.8% at September 30, 2017, up 0.4% from the end of the prior quarter. The Company may purchase more shares through the balance of 2017 subject to the terms of the normal course issuer bid.

### **Dividends**

On October 20, 2017, the Board of Directors declared a quarterly dividend of \$0.0625 per share, payable on November 9, 2017 to the shareholders of record on November 2, 2017.

### **Collective Agreements with Labour Unions**

The Company ratified new four-year collective agreements with Unifor and PPWC (Public and Private Workers of Canada) during the second quarter of 2017. Both agreements expire on April 30, 2021.

### **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.

## **OUTLOOK**

### **Pulp Markets**

For the month of October 2017, the Company announced increases of US\$105 per tonne and US\$30 per tonne for NBSK pulp list prices to China and North America, respectively, reflecting a surge in demand, principally from China, as well as supply disruptions. Global pulp markets are currently anticipated to remain strong in the fourth quarter of 2017.

Results in the fourth quarter of 2017 will reflect a scheduled outage at the Taylor pulp mill to complete preliminary work associated with the previously announced energy project, with a projected 3,000 tonnes of reduced BCTMP production as well as lower projected shipment volumes.

### **Paper Markets**

Bleached kraft paper markets and prices are projected to remain relatively unchanged in the fourth quarter of 2017.

## **OUTSTANDING SHARES**

At October 20, 2017, there were 65,258,834 common shares of the Company outstanding.

## **CRITICAL ACCOUNTING ESTIMATES**

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

## **ACCOUNTING STANDARDS ISSUED AND NOT APPLIED**

In May 2014, the International Accounting Standards Board ("IASB") issued IFRS 15, *Revenue from Contracts with Customers*, which will supersede IAS 18, *Revenue*, IAS 11, *Construction Contracts* and related interpretations. The new standard is effective for annual periods beginning on or after January 1, 2018. The Company has performed an assessment of the impact of the new standard, and has determined that adoption of this standard will have no significant impact on the Company's financial statements.

In July 2014, the IASB issued IFRS 9, *Financial Instruments*. The required adoption date for IFRS 9 is January 1, 2018 and the Company has determined that the adoption of this new standard will have no significant impact on its financial statements.

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

## **INTERNAL CONTROLS OVER FINANCIAL REPORTING**

During the quarter ended September 30, 2017, 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 2016 annual statutory reports which are available on [www.canfor.com](http://www.canfor.com) or [www.sedar.com](http://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

	Q3 2017	Q2 2017	Q1 2017	Q4 2016	Q3 2016	Q2 2016	Q1 2016	Q4 2015
<b>Sales and income</b> (millions of Canadian dollars)								
Sales	\$ 284.9	\$ 280.9	\$ 309.2	\$ 257.8	\$ 291.6	\$ 257.2	\$ 295.3	\$ 330.8
Operating income before amortization <sup>8</sup>	\$ 39.4	\$ 50.0	\$ 54.0	\$ 42.1	\$ 50.0	\$ 22.1	\$ 57.8	\$ 56.2
Operating income	\$ 21.1	\$ 31.5	\$ 35.2	\$ 22.9	\$ 31.0	\$ 5.2	\$ 39.1	\$ 38.6
Net income	\$ 12.6	\$ 20.2	\$ 24.1	\$ 10.1	\$ 22.4	\$ 2.2	\$ 23.1	\$ 29.7
<b>Per common share</b> (Canadian dollars)								
Net income – basic and diluted	\$ 0.19	\$ 0.31	\$ 0.36	\$ 0.15	\$ 0.34	\$ 0.03	\$ 0.34	\$ 0.43
Book value <sup>9</sup>	\$ 7.78	\$ 7.63	\$ 7.55	\$ 7.27	\$ 7.14	\$ 6.88	\$ 7.15	\$ 6.96
Dividends declared	\$ 0.0625	\$ 0.0625	\$ 0.0625	\$ 0.0625	\$ 0.0625	\$ 0.0625	\$ 0.0625	\$ 0.0625
<b>Common Share Repurchases</b>								
Share volume repurchased (000 shares)	568	608	264	-	-	1,840	413	693
Shares repurchased (millions of Canadian dollars)	\$ 7.2	\$ 7.5	\$ 3.0	\$ -	\$ -	\$ 19.5	\$ 4.9	\$ 9.7
<b>Statistics</b>								
Pulp shipments (000 mt)	303.3	276.3	337.1	275.4	319.8	287.2	319.1	356.2
Paper shipments (000 mt)	34.0	35.5	33.7	33.6	35.5	38.5	34.9	35.4
Average exchange rate – US\$/Cdn\$	\$ 0.798	\$ 0.744	\$ 0.756	\$ 0.750	\$ 0.766	\$ 0.776	\$ 0.728	\$ 0.749
Average NBSK pulp list price delivered to China (US\$)	\$ 670	\$ 670	\$ 645	\$ 595	\$ 595	\$ 617	\$ 590	\$ 600

<sup>8</sup> Amortization includes amortization of certain capitalized major maintenance costs.

<sup>9</sup> 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)	Q3 2017	Q2 2017	Q1 2017	Q4 2016	Q3 2016	Q2 2016	Q1 2016	Q4 2015
<b>Net income, as reported</b>	\$ 12.6	\$ 20.2	\$ 24.1	\$ 10.1	\$ 22.4	\$ 2.2	\$ 23.1	\$ 29.7
(Gain) loss on derivative financial instruments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (0.7)
Net impact of above items	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (0.7)
<b>Adjusted net income</b>	\$ 12.6	\$ 20.2	\$ 24.1	\$ 10.1	\$ 22.4	\$ 2.2	\$ 23.1	\$ 29.0
<b>Net income per share (EPS), as reported<sup>10</sup></b>	\$ 0.19	\$ 0.31	\$ 0.36	\$ 0.15	\$ 0.34	\$ 0.03	\$ 0.34	\$ 0.43
Net impact of above items per share <sup>10</sup>	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (0.01)
<b>Adjusted net income per share<sup>10</sup></b>	\$ 0.19	\$ 0.31	\$ 0.36	\$ 0.15	\$ 0.34	\$ 0.03	\$ 0.34	\$ 0.42

<sup>10</sup> The year-to-date net impact of net income per share, the adjusting items per share and adjusted net income per share may not equal the sum of the quarterly per share amounts due to rounding.

## Canfor Pulp Products Inc. Condensed Consolidated Balance Sheets

(millions of Canadian dollars, unaudited)	<b>As at September 30, 2017</b>	As at December 31, 2016
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 81.3	\$ 51.9
Accounts receivable - Trade	87.2	75.9
- Other	10.3	16.8
Inventories (Note 2)	161.3	166.5
Prepaid expenses	8.4	5.1
<b>Total current assets</b>	<b>348.5</b>	<b>316.2</b>
<b>Property, plant and equipment</b>	<b>522.0</b>	<b>518.7</b>
<b>Other long-term assets</b>	<b>4.2</b>	<b>2.2</b>
<b>Total assets</b>	<b>\$ 874.7</b>	<b>\$ 837.1</b>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ 135.2	\$ 125.4
<b>Total current liabilities</b>	<b>135.2</b>	<b>125.4</b>
<b>Long-term debt</b>	<b>50.0</b>	<b>50.0</b>
<b>Retirement benefit obligations</b> (Note 4)	<b>115.9</b>	<b>109.1</b>
<b>Other long-term provisions</b>	<b>6.0</b>	<b>6.2</b>
<b>Deferred income taxes, net</b>	<b>59.5</b>	<b>61.7</b>
<b>Total liabilities</b>	<b>\$ 366.6</b>	<b>\$ 352.4</b>
<b>EQUITY</b>		
Share capital	\$ 481.0	\$ 491.6
Retained earnings (deficit)	27.1	(6.9)
<b>Total equity</b>	<b>\$ 508.1</b>	<b>\$ 484.7</b>
<b>Total liabilities and equity</b>	<b>\$ 874.7</b>	<b>\$ 837.1</b>

### Subsequent Event (Note 11)

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

APPROVED BY THE BOARD

"S.E. Bracken-Horrocks"

Director, S.E. Bracken-Horrocks

"C.A. Pinette"

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 September 30,		9 months ended September 30,	
	<b>2017</b>	2016	<b>2017</b>	2016
<b>Sales</b>	\$ <b>284.9</b>	\$ 291.6	\$ <b>875.0</b>	\$ 844.1
<b>Costs and expenses</b>				
Manufacturing and product costs	<b>201.4</b>	195.2	<b>595.0</b>	573.4
Freight and other distribution costs	<b>37.5</b>	39.9	<b>116.3</b>	120.4
Amortization	<b>18.3</b>	19.0	<b>55.6</b>	54.6
Selling and administration costs	<b>6.6</b>	6.5	<b>20.3</b>	20.4
	<b>263.8</b>	260.6	<b>787.2</b>	768.8
<b>Operating income</b>	<b>21.1</b>	31.0	<b>87.8</b>	75.3
Finance expense, net	<b>(1.8)</b>	(1.6)	<b>(5.3)</b>	(4.7)
Other income (expense), net	<b>(3.0)</b>	0.8	<b>(6.5)</b>	(5.3)
Net income before income taxes	<b>16.3</b>	30.2	<b>76.0</b>	65.3
Income tax expense (Note 6)	<b>(3.7)</b>	(7.8)	<b>(19.1)</b>	(17.6)
<b>Net income</b>	\$ <b>12.6</b>	\$ 22.4	\$ <b>56.9</b>	\$ 47.7
<b>Net income per common share:</b> (in Canadian dollars)				
Attributable to equity shareholders of the Company				
- Basic and diluted (Note 7)	\$ <b>0.19</b>	\$ 0.34	\$ <b>0.86</b>	\$ 0.70

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 September 30,		9 months ended September 30,	
	2017	2016	2017	2016
<b>Net income</b>	\$ 12.6	\$ 22.4	\$ 56.9	\$ 47.7
<b>Other comprehensive income (loss)</b>				
Items that will not be recycled through net income:				
Defined benefit plan actuarial gains (losses) (Note 4)	6.2	(1.5)	(4.6)	(19.0)
Income tax recovery (expense) on defined benefit plan actuarial losses/gains (Note 6)	(1.6)	0.4	1.2	5.0
	4.6	(1.1)	(3.4)	(14.0)
Items that may be recycled through net income:				
Change in fair value of available-for-sale financial instruments, net of tax	-	0.2	-	0.2
Other comprehensive income (loss), net of tax	4.6	(0.9)	(3.4)	(13.8)
<b>Total comprehensive income</b>	\$ 17.2	\$ 21.5	\$ 53.5	\$ 33.9

## Condensed Consolidated Statements of Changes in Equity

(millions of Canadian dollars, unaudited)	3 months ended September 30,		9 months ended September 30,	
	2017	2016	2017	2016
<b>Share capital</b>				
Balance at beginning of period	\$ 485.2	\$ 491.6	\$ 491.6	\$ 508.2
Share purchases (Note 7)	(4.2)	-	(10.6)	(16.6)
Balance at end of period	\$ 481.0	\$ 491.6	\$ 481.0	\$ 491.6
<b>Retained earnings (deficit)</b>				
Balance at beginning of period	\$ 17.0	\$ (32.5)	\$ (6.9)	\$ (28.5)
Net income	12.6	22.4	56.9	47.7
Defined benefit plan actuarial gains (losses), net of tax	4.6	(1.1)	(3.4)	(14.0)
Dividends declared	(4.1)	(4.1)	(12.4)	(12.7)
Share purchases (Note 7)	(3.0)	-	(7.1)	(7.8)
Balance at end of period	\$ 27.1	\$ (15.3)	\$ 27.1	\$ (15.3)
<b>Accumulated other comprehensive income</b>				
Balance at beginning of period	\$ -	\$ -	\$ -	\$ -
Change in fair value of available-for-sale financial instruments, net of tax	-	0.2	-	0.2
Balance at end of period	\$ -	\$ 0.2	\$ -	\$ 0.2
<b>Total equity</b>	\$ 508.1	\$ 476.5	\$ 508.1	\$ 476.5

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 September 30,		9 months ended September 30,	
	<b>2017</b>	2016	<b>2017</b>	2016
<b>Cash generated from (used in):</b>				
<b>Operating activities</b>				
Net income	\$ 12.6	\$ 22.4	\$ 56.9	\$ 47.7
Items not affecting cash:				
Amortization	18.3	19.0	55.6	54.6
Income tax expense	3.7	7.8	19.1	17.6
Employee future benefits	1.3	1.2	3.9	3.7
Finance expense, net	1.8	1.6	5.3	4.7
Other, net	0.5	0.2	(0.9)	(1.6)
Defined benefit plan contributions, net	(1.6)	(3.6)	(4.8)	(6.2)
Income taxes paid, net	(16.5)	(18.6)	(17.6)	(32.8)
	<b>20.1</b>	30.0	<b>117.5</b>	87.7
Net change in non-cash working capital (Note 8)	<b>1.0</b>	(3.9)	<b>(1.2)</b>	15.2
	<b>21.1</b>	26.1	<b>116.3</b>	102.9
<b>Financing activities</b>				
Finance expenses paid	(0.9)	(0.8)	(2.3)	(2.1)
Dividends paid	(4.1)	(4.1)	(12.4)	(12.7)
Share purchases (Note 7)	(7.5)	(0.3)	(17.7)	(24.7)
	<b>(12.5)</b>	(5.2)	<b>(32.4)</b>	(39.5)
<b>Investing activities</b>				
Additions to property, plant and equipment, net	(19.0)	(14.0)	(55.0)	(45.7)
Other, net	0.2	-	0.5	(3.3)
	<b>(18.8)</b>	(14.0)	<b>(54.5)</b>	(49.0)
<b>Increase (decrease) in cash and cash equivalents*</b>	<b>(10.2)</b>	6.9	<b>29.4</b>	14.4
Cash and cash equivalents at beginning of period*	91.5	25.0	51.9	17.5
<b>Cash and cash equivalents at end of period*</b>	<b>\$ 81.3</b>	\$ 31.9	<b>\$ 81.3</b>	\$ 31.9

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

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

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

Three and nine months ended September 30, 2017 and 2016  
(millions of Canadian dollars unless otherwise noted, unaudited)

### 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 October 20, 2017, 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, 2016, available at [www.canfor.com](http://www.canfor.com) or [www.sedar.com](http://www.sedar.com).

Effective January 1, 2017, the Company has adopted the amendment to IAS 7, *Statement of Cash Flows*, which clarified disclosure requirements associated with cash and non-cash changes in liabilities from financing activities. The adoption of this amendment has had no impact on the Company's disclosures in the financial statements.

Certain comparative amounts for the prior year have been reclassified to conform to the current year's presentation. These financial statements were authorized for issue by the Company's Board of Directors on October 20, 2017.

### **Accounting Standards Issued and Not Applied**

In May 2014, the International Accounting Standards Board ("IASB") issued IFRS 15, *Revenue from Contracts with Customers*, which will supersede IAS 18, *Revenue*, IAS 11, *Construction Contracts* and related interpretations. The new standard is effective for annual periods beginning on or after January 1, 2018. The Company has performed an assessment of the impact of the new standard, and has determined that adoption of this standard will have no significant impact on the Company's financial statements.

In July 2014, the IASB issued IFRS 9, *Financial Instruments*. The required adoption date for IFRS 9 is January 1, 2018 and the Company has determined that adoption of this standard will have no significant impact on its financial statements.

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

### 2. Inventories

(millions of Canadian dollars, unaudited)	<b>As at September 30, 2017</b>	As at December 31, 2016
Pulp	\$ 72.1	\$ 84.2
Paper	15.4	15.7
Wood chips and logs	20.5	15.4
Materials and supplies	53.3	51.2
	<b>\$ 161.3</b>	<b>\$ 166.5</b>

Inventory balances are stated after inventory write-downs from cost to net realizable value. There were no inventory write-downs at September 30, 2017 or December 31, 2016.

### 3. Operating Loans

(millions of Canadian dollars, unaudited)	<b>As at September 30, 2017</b>	As at December 31, 2016
Operating loan facility	\$ 110.0	\$ 110.0
Letters of credit	<b>(9.0)</b>	(9.3)
<b>Total available operating loan facility</b>	<b>\$ 101.0</b>	<b>\$ 100.7</b>

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 September 30, 2017 (December 31, 2016 - nil).

At September 30, 2017, \$9.0 million of letters of credit outstanding are covered under the general operating loan facility, and the Company was in compliance with all covenants relating to its operating loans.

### 4. Employee Future Benefits

For the three months ended September 30, 2017, defined benefit plan actuarial gains of \$6.2 million (before tax) were recognized in other comprehensive income (loss), principally reflecting a higher discount rate used to value the net defined benefit plan obligations partially offset by a return on plan assets lower than discount rate. For the nine months ended September 30, 2017, defined benefit plan actuarial losses of \$4.6 million (before tax) were recognized in other comprehensive income (loss). For the three and nine months ended September 30, 2016, the Company recognized before tax actuarial losses in other comprehensive income (loss) of \$1.5 million and \$19.0 million, respectively.

For the Company's defined benefit pension plans, a one percentage point increase in the discount rate used in calculating the actuarial estimate of future liabilities would decrease the accrued defined benefit pension obligation by an estimated \$16.6 million, of which 34% (December 31, 2016 – 24%) is fully hedged against changes in discount rates and longevity risk (potential increases in life expectancy of plan members) through buy-in annuities, and a further 36% (December 31, 2016 – 46%) is partially hedged through the plan's investment in debt securities. For the Company's other 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 \$12.0 million.

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

	<b>Defined Benefit Pension Plans</b>	<b>Other Benefit Plans</b>
September 30, 2017	<b>3.8%</b>	<b>3.8%</b>
June 30, 2017	3.5%	3.5%
December 31, 2016	3.9%	3.9%
September 30, 2016	3.4%	3.4%
June 30, 2016	3.5%	3.5%
December 31, 2015	4.1%	4.1%

In the second quarter of 2017, the Company purchased \$18.0 million of buy-in annuities through its defined benefit pension plans, increasing total annuities purchased to \$57.8 million. Future cash flows from the annuities will match the amount and timing of benefits payable under the plans, substantially mitigating the exposure to future volatility in the related pension obligations. Transaction costs of \$1.1 million related to the purchase were recognized in other comprehensive income (loss) in the second quarter of 2017, principally reflecting the difference between the annuity rate (which is comparable to solvency rates) compared to the discount rate used to value the obligations on a going concern basis.

## 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 September 30, 2017, the fair value of the Company's long-term debt approximates its amortized cost of \$50.0 million (December 31, 2016 - \$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.

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 September 30, 2017 and December 31, 2016, the Company had no derivative financial instruments outstanding.

## 6. Income Taxes

(millions of Canadian dollars, unaudited)	3 months ended September 30,		9 months ended September 30,	
	<b>2017</b>	2016	<b>2017</b>	2016
Current	\$ (3.8)	\$ (7.8)	\$ (20.1)	\$ (17.8)
Deferred	<b>0.1</b>	-	<b>1.0</b>	0.2
Income tax expense	<b>\$ (3.7)</b>	\$ (7.8)	<b>\$ (19.1)</b>	\$ (17.6)

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 September 30,		9 months ended September 30,	
	<b>2017</b>	2016	<b>2017</b>	2016
Income tax expense at statutory rate of 26.0%	\$ (4.3)	\$ (7.9)	\$ (19.8)	\$ (17.0)
Add (deduct):				
Entities with different income tax rates and other tax adjustments	<b>0.6</b>	0.1	<b>0.7</b>	(0.6)
Income tax expense	<b>\$ (3.7)</b>	\$ (7.8)	<b>\$ (19.1)</b>	\$ (17.6)

In addition to the amounts recorded to net income, a tax expense of \$1.6 million was recorded in other comprehensive income (loss) for the three months ended September 30, 2017 in relation to the actuarial gains on defined benefit plans (three months ended September 30, 2016 – recovery of \$0.4 million). For the nine month period ended September 30, 2017, a tax recovery of \$1.2 million was recorded in other comprehensive income (loss) (nine months ended September 30, 2016 – tax recovery of \$5.0 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 September 30,		9 months ended September 30,	
	<b>2017</b>	2016	<b>2017</b>	2016
Weighted average number of common shares	<b>65,480,630</b>	66,699,368	<b>66,096,563</b>	67,793,394

On March 7, 2017, the Company renewed its normal course issuer bid whereby it can purchase for cancellation up to 3,332,038 common shares or approximately 5% of its issued and outstanding common shares as of March 1, 2017. The renewed normal course issuer bid is set to expire on March 6, 2018. During the third quarter of 2017, CPPI purchased 568,425 common shares for \$7.2 million (an average of \$12.67 per common share), and paid an additional \$0.3 million in relation to shares purchased earlier in the year. For the nine months ended September 30, 2017, the Company purchased 1,440,528 common shares for \$17.7 million (an average of \$12.29 per common share). As at October 20, 2017, there were 65,258,834 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 September 30,		9 months ended September 30,	
	2017	2016	2017	2016
Accounts receivable	\$ 11.4	\$ (5.1)	\$ (4.7)	\$ 15.4
Inventories	2.8	14.2	4.9	9.7
Prepaid expenses	(5.3)	(3.0)	(3.3)	(3.7)
Accounts payable and accrued liabilities	(7.9)	(10.0)	1.9	(6.2)
Net decrease (increase) in non-cash working capital	\$ 1.0	\$ (3.9)	\$ (1.2)	\$ 15.2

## 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.

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
<b>3 months ended September 30, 2017</b>					
<b>Sales to external customers</b>	\$ 243.6	\$ 41.2	\$ 0.1	\$ -	\$ 284.9
<b>Sales to other segments</b>	22.0	-	-	(22.0)	-
<b>Operating income (loss)</b>	19.0	4.9	(2.8)	-	21.1
<b>Amortization</b>	17.3	1.0	-	-	18.3
<b>Capital expenditures<sup>1</sup></b>	17.8	0.2	1.0	-	19.0
3 months ended September 30, 2016					
Sales to external customers	\$ 247.9	\$ 43.6	\$ 0.1	\$ -	\$ 291.6
Sales to other segments	19.8	-	-	(19.8)	-
Operating income (loss)	26.7	7.2	(2.9)	-	31.0
Amortization	18.1	0.9	-	-	19.0
Capital expenditures <sup>1</sup>	12.8	0.8	0.4	-	14.0
<b>9 months ended September 30, 2017</b>					
<b>Sales to external customers</b>	\$ 747.2	\$ 127.4	\$ 0.4	\$ -	\$ 875.0
<b>Sales to other segments</b>	66.2	-	-	(66.2)	-
<b>Operating income (loss)</b>	78.1	18.6	(8.9)	-	87.8
<b>Amortization</b>	52.7	2.9	-	-	55.6
<b>Capital expenditures<sup>1</sup></b>	52.4	0.5	2.1	-	55.0
<b>Identifiable assets</b>	729.0	51.0	94.7	-	874.7
9 months ended September 30, 2016					
Sales to external customers	\$ 708.3	\$ 134.3	\$ 1.5	\$ -	\$ 844.1
Sales to other segments	60.9	-	-	(60.9)	-
Operating income (loss)	61.5	21.6	(7.8)	-	75.3
Amortization	51.8	2.8	-	-	54.6
Capital expenditures <sup>1</sup>	44.0	1.3	0.4	-	45.7
Identifiable assets	727.1	55.3	52.3	-	834.7

<sup>1</sup>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 nine months ended September 30, 2017, the Company depended on Canfor to provide approximately 63% (nine months ended September 30, 2016 - 63%) 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, 2016 audited consolidated financial statements of CPPI and are based on agreed upon amounts between the parties.

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

(millions of Canadian dollars, unaudited)	3 months ended September 30,		9 months ended September 30,	
	<b>2017</b>	2016	<b>2017</b>	2016
<b>Transactions</b>				
Purchase of wood chips and other	\$ <b>50.6</b>	\$ 39.0	\$ <b>138.3</b>	\$ 120.9

(millions of Canadian dollars, unaudited)	<b>As at September 30, 2017</b>	<b>As at December 31, 2016</b>
<b>Balance Sheet</b>		
Included in accounts payable and accrued liabilities	\$ <b>12.1</b>	\$ 10.3

## 11. Subsequent Event

On October 20, 2017, the Board of Directors declared a quarterly dividend of \$0.0625 per share, payable on November 9, 2017, to shareholders of record on November 2, 2017.